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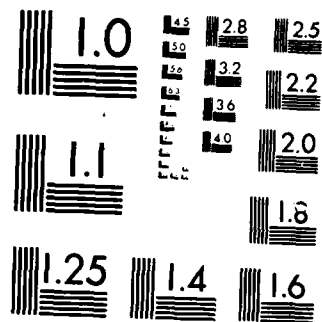
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NAVAL POSTGRADUATE SCHOOL

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THESIS

BUDGET EXECUTION EXERCISE FOR USE IN
THE FINANCIAL MANAGEMENT IN THE ARMED
FORCES COURSE AT THE NAVAL POSTGRADUATE
SCHOOL

by

James F. Oikle

December 1985

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SECURITY CLASSIFICATION OF THIS PAGE

REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION UNCLASSIFIED			1b. RESTRICTIVE MARKINGS		
2a. SECURITY CLASSIFICATION AUTHORITY			3. DISTRIBUTION/AVAILABILITY OF REPORT Approved for public release; Distribution is unlimited.		
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE					
4. PERFORMING ORGANIZATION REPORT NUMBER(S)			5. MONITORING ORGANIZATION REPORT NUMBER(S)		
6a. NAME OF PERFORMING ORGANIZATION NAVAL POSTGRADUATE SCHOOL		6b. OFFICE SYMBOL (if applicable) 54		7a. NAME OF MONITORING ORGANIZATION NAVAL POSTGRADUATE SCHOOL	
6c. ADDRESS (City, State, and ZIP Code) MONTEREY, CALIFORNIA 93943-5100			7b. ADDRESS (City, State, and ZIP Code) MONTEREY, CALIFORNIA 93943-5100		
8a. NAME OF FUNDING/SPONSORING ORGANIZATION		8b. OFFICE SYMBOL (if applicable)		9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER	
8c. ADDRESS (City, State, and ZIP Code)			10. SOURCE OF FUNDING NUMBERS		
			PROGRAM ELEMENT NO.	PROJECT NO.	TASK NO.
			WORK UNIT ACCESSION NO.		
11. TITLE (Include Security Classification) BUDGET EXECUTION EXERCISE FOR USE IN THE FINANCIAL MANAGEMENT IN THE ARMED FORCES COURSE AT THE NAVAL POSTGRADUATE SCHOOL					
12. PERSONAL AUTHOR(S) OIKLE, James F.					
13a. TYPE OF REPORT Master's Thesis		13b. TIME COVERED FROM _____ TO _____		14. DATE OF REPORT (Year, Month, Day) December 1985	
				15. PAGE COUNT 130	
16. SUPPLEMENTARY NOTATION					
17. COSATI CODES			18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)		
FIELD	GROUP	SUB-GROUP	Financial Management, Budget Execution, Comptroller Duties, game, Simulation, Annual Planning Figure, Budget Allocation		
19. ABSTRACT (Continue on reverse if necessary and identify by block number) This thesis develops a budget execution exercise for use in the MN-4154, Financial Management in the Armed Forces, course at the Naval Postgraduate School. The comptroller at field level commands is identified as the individual responsible for budget execution. Three commands, The Naval Postgraduate School, Monterey, California; The Naval Air Station, Brunswick, Maine; and the Supervisor of Shipbuilding, Bath, Maine, were studied to determine the techniques field comptrollers use to deal with problems related to budget execution. Using the information obtained from the research, a practical exercise was developed. The exercise covers one fiscal year and includes problems encountered in starting the fiscal year, emergent situations requiring funding augmentation from the sponsor, and year-end close out problems.					
20. DISTRIBUTION/AVAILABILITY OF ABSTRACT <input checked="" type="checkbox"/> UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT <input type="checkbox"/> DTIC USERS			21. ABSTRACT SECURITY CLASSIFICATION UNCLASSIFIED		
22a. NAME OF RESPONSIBLE INDIVIDUAL LTCOL D. E. MELCHAR			22b. TELEPHONE (Include Area Code) (408) 646-2401		22c. OFFICE SYMBOL 0309

DD FORM 1473, 84 MAR

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Budget Execution Exercise for Use in
the Financial Management in the Armed
Forces Course at the Naval Postgraduate
School

by

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Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
December 1985

Author:

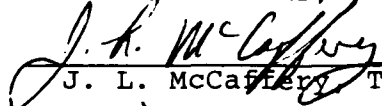


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ABSTRACT

This thesis develops a budget execution exercise for use in the MN-4154, Financial Management in the Armed Forces, course at the Naval Postgraduate School. The comptroller at field level commands is identified as the individual responsible for budget execution. Three commands, The Naval Postgraduate School, Monterey, California; The Naval Air Station, Brunswick, Maine; and the Supervisor of Shipbuilding, Bath, Maine, were studied to determine the techniques field comptrollers use to deal with problems related to budget execution. Using the information obtained from the research, a practical exercise was developed. The exercise covers one fiscal year and includes problems encountered in starting the fiscal year, emergent situations requiring funding augmentation from the sponsor, and year-end close out problems.



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I. INTRODUCTION

A. THE PROBLEM

There is an abundance of literature which describes the Department of Defense Planning, Programming, and Budgeting System (PPBS) in minute detail. Within that context, there are also a number of publications which describe implementation and reporting procedures at the agency and headquarters level. However, there is virtually nothing available in published sources that addresses the procedures that field level comptrollers use from the time that they receive authority to obligate funds on 1 October each year until the end of the fiscal year when obligational authority expires. Also, there is nothing in the literature that describes the procedures for interface between the comptroller, a staff executive responsible for recommending appropriate financial procedures, and the line managers who are responsible for executing the mission of the command.

For example, Financial Management Guidebook for Commanding Officers, NAVSO P-3582 [Ref. 1], describes PPBS and sources of funds, reimburseable orders, activity level budgeting, legal aspects of funds management, internal review, industrial funds, and stock funds. However, in the area of budget execution, there is only an admonishment to ensure that funds

are not over-committed, over-obligated, or over-expended. Similarly, Financial Management in the Navy, NAVEDTRA 10792-E [Ref. 2], contains fourteen chapters addressing subjects from the Congressional budget process to auditing. One of the chapters is entitled, "Budget Execution", but only three paragraphs in the chapter are devoted to budget execution at the activity level. And finally, there is Office of Management and Budget (OMB) circular A-34, "Instructions on Budget Execution" [Ref. 3]. This circular, while addressing budget execution, delineates procedures which are applicable to the agency level, not the field level.

In a perfect world, such procedures would not be necessary; if the unforeseen never occurred, budget execution would simply be a process of implementing the budget plan which was created and approved as part of the PPBS process. However, it is a well-known fact that obligational authority granted on 1 October frequently differs from the amount requested in the budget submission. Similarly, unforeseeable events frequently necessitate deviation from the original budget.

It is these deviations from the approved budget that are the subject of the research. The circumstances requiring deviation and the manner in which field comptrollers deal with them will be examined at three separate Navy commands.

Also, the position or billet within each command that has responsibility for executing the budget will be identified.

B. RATIONALE FOR THE BUDGET EXECUTION EXERCISE

The need for a practical budget execution exercise developed as a logical extension of the budget exercise currently being used in the Financial Management in the Armed Forces course (MN-4154) at the Naval Postgraduate School. The budget exercise currently in use was developed as a result of thesis research by Lieutenant Ann J. Eidson at the Naval Postgraduate School, December 1984 [Ref. 4].

The budget exercise developed by Lieutenant Eidson concentrates on the planning phase of field level budgets, with emphasis on the budget reclama process as it is conducted by the financial sponsor. While the game provides significant experience with that process, it does not involve the student in the actual execution phase of the current fiscal year budget wherein appropriated funds are obligated on a current basis in support of the command's mission.

Based upon discussion with the course instructors and with students who participated in the original game during May 1985, two things were determined. First, it was desired that practical experience in the methods used to handle budget execution problems on a real time, current basis be included. Second, it was felt that a gaming exercise similar

to the original game could provide practical experience in budget execution which would be of benefit to all students enrolled in the course, and of particular benefit to those students being assigned to comptrollership duties.

The decision to use gaming as a vehicle to provide this added experience came as the result of discussions with students who indicated that the interactive approach provided by a game would be more realistic and more meaningful than listening to class lectures or writing papers and submitting them to the instructors for evaluation and grading.

Student opinion forms were reviewed for the Spring 1985 and Autumn 1984 MN-4154 course and it was determined that students considered the original game to be a valuable experience, well worth the required class time and independent study time. Of the 142 student opinion forms reviewed, 64 contained optional written comments. Only 15 of the 64 optional comments addressed the budget game, but all 15 were positive. There were no negative references to the game in any of the forms. One student did recommend that the game be conducted at a different time during the course, but that was offset by another student who said that it came at the right time. The course instructor, therefore, requested that the game being developed by this thesis be an extension of, rather than a replacement for the original game.

The research necessary to support development of the game consisted of selecting field-level commands and interviewing the comptrollers at those commands to determine how they manage scarce financial resources in a manner that will maximize contribution to the command's mission while ensuring that funds are neither used for purposes for which they have not been appropriated nor obligated in amounts greater than that which was authorized.

II. THE COMPTROLLER'S DUTIES

The purpose of this section is to identify the comptroller as the person who has primary responsibility for making budget execution recommendations to the commanding officer; and to state briefly what are the comptroller's duties.

1 comptroller's duties are set forth in Navy Comptroller Manual [Ref. 5] (hereinafter referenced as "NCM" followed by the applicable paragraph number). NCM 012100 prescribes five comptrollership functions which must be performed by or for every naval activity. Whether or not an activity is large enough or complex enough to merit the establishment of a separate comptroller organization, the functions must be performed. The specific functions are: (1) Establish an integrated system for financial management, (2) Review requirements, estimate costs, and prepare budgets which will result in the most economical and efficient performance of the command's mission, (3) Perform accounting and reporting functions, (4) Analyze program performance, prepare statistical calculations, and present information to line managers and the commanding officer in such form as will permit them to initiate prompt action when variances from the approved budget are detected. (5) Perform an internal review function designed to ensure that the command is operating as

effectively and efficiently as possible and is in compliance with laws and regulations pertaining to financial management.

The functions delineated in NCM 012100 are similar to those prescribed for corporate comptrollers. In a 1969 study, Edward P. Harkins lists seven functions for corporate comptrollers: (1) Planning and budgeting, (2) Reporting and interpreting, (3) Evaluating and consulting, (4) Tax administration, (5) Government reporting, (6) Protection of assets, (7) Economic appraisal [Ref. 6].

With the exception of tax administration, the functions in the Harkins list are identical to the functions prescribed in NCM 012100. Harkins' protection of assets relates to the Navy's internal review function, economic appraisal and reporting and interpreting relate to the Navy's program performance analysis, government reporting relates to the Navy's accounting and reporting function, and planning and budgeting are the same in both systems.

NCM 012200 prescribes that operational authority for comptroller functions will be delegated to the comptroller. This requirement is intended to ensure that the comptroller has the authority to appropriately discharge those functions for which he is responsible; it is not intended to extend to the establishment of command policy or the prioritization of command programs and initiatives. Command policy is solely

within the purview of the commanding officer; other command programs and initiatives are the responsibility of the line manager to whom the commanding officer has delegated authority. NCM 012503, Standards for Field Comptroller Services, reiterates this philosophy in stating, "The purpose of the comptroller organization is to provide the commanding officer and other levels of management with a staff service directed toward efficiency and economy in the operations of the Department of the Navy," and, ". . . the comptroller will provide the commanding officer and other management officials with technical advice and guidance in the area of budget formulation and execution. . . .", and finally, "Properly performed, the comptrollership function will enable management to devote more time to policy formulation, decision making, and program direction."

Unquestionably, there must be some comptroller involvement in the line decision-making process if the comptroller is to effectively carry out his responsibilities. The direction given by the Navy Comptroller Manual in the phrases, "provide a staff service," and, "provide technical advice and guidance." and, "enable management to devote more time to policy formulation," is generic in nature and does not establish either the bounds within which the comptroller must operate or the degree to which he should involve himself in the day to day affairs of the line departments.

Vijay Sathe, in Controller Involvement in Management [Ref. 7: pp. 1-5], discusses the comptroller's dilemma in determining the appropriate degree of involvement in the line department's activities. Sathe says that, in order to provide advice and guidance about the financial affairs of line departments, he must involve himself in the affairs of the department. On the other hand, the comptroller's ultimate responsibility is to the organization as a whole and to the external agencies to which the organization must report. In order to provide appropriate analytical service to the organization and retain the objectivity demanded by external agencies, the comptroller must remain, to a large extent, aloof and uninvolved in the day to day activities of the line departments.

Sathe developed and evaluated six hypotheses that purport to account for the degree of comptroller involvement in an organization. First, the more stable the operating environment, the less the controller is involved. Second, the more that independent divisions or units within a company need to cooperate to achieve the profit objective, the greater will be the controller's involvement. Third, the corporate controller's involvement increases as financial analysis and financial control become more important to the company. Fourth, the controller will be less involved in situations where corporate management has significant financial management ability. Fifth, corporate involvement will be higher in

situations where management does not have financial management ability, if management does have significant financial orientation in their approach to the business. Sixth, the level of corporate controller involvement tends to conform closely to the degree of involvement expected by management. Management, in the context of this paragraph, refers to the executive management of the company; not the individual line manager of departments or division. [Ref. 7: pp. 65-76]

Sathe's research disclosed that there is either a negligible or weak correlation between the hypotheses and observed behavior for the first four hypotheses. There is a moderate correlation for the fifth hypothesis, and a strong correlation for the sixth hypothesis [Ref. 7: pp. 65-76]. The research suggests that it is senior management's desires and their level of financial orientation in their approach to the business that determines the level of controller involvement.

From both the Harkins study and the specific guidance contained in the Navy Comptroller Manual, it is clear that, while the chief executive in a corporation and the commanding officer in a military organization are ultimately responsible for budget execution, it is the comptroller who is primarily responsible for initiating recommendations and monitoring progress on a day to day basis.

All five of the duties specified in NCM 012100 are inherent in the budget execution process. Three of the five duties, establishment of a financial management system, accounting and reporting, and program analysis, are directly involved with the execution process; another duty, planning and budgeting, has a significant impact on the process although it precedes the execution process. The fifth duty, internal review, is important from the stand point of efficiency, effectiveness, and compliance with the law; however it is not directly involved with routine budget execution procedures.

For the purpose of this thesis, the three duties directly related to the budget execution process will be studied.

III. RESEARCH DESIGN

A. RESEARCH QUESTIONS

To make the game as relevant to both the MN-4154 course and the real world situation as possible, the questions to be used in the field research were extracted from the subjects covered in the course text and lectures. The primary emphasis was on determining how scarce financial resources are actually managed at the field level. There was no attempt made to verify whether or not commands are actually in compliance with guidance received from higher authority, although it soon became obvious during the field interviews that comptroller personnel are generally cognizant and supportive of restrictions imposed upon them by higher authority.

The first set of questions was designed to provide background information about the command, its working environment, and the relationships it has with other commands, such as tenant activities, that might have an impact on the manner in which the local budget is executed. The second group of questions concerns the initial allocation of the annual planning figure. This allocation is the first step in the actual spending process at the local level. Although spending may be authorized to begin on 1 October of each

fiscal year even if the annual planning figure has not been provided by the financial sponsor, it is the assignment of an annual planning figure which is the first step in actually managing the command's funds. The assignment of the annual planning figure is also the first point at which adjustment of the local budget is made after the fiscal year has started. The third set of questions deals with constraints imposed by levels of command higher than the financial sponsor. These constraints are considered to be important because they are not controllable by either the local command or the financial sponsor and, therefore, have a potentially serious impact on local resources. The fourth set of questions concerns the effect of locally generated actions; either initiation of new, unbudgeted initiatives, or readjustment of funds between and among budget line items that have been previously approved.

B. SELECTION OF COMMANDS FOR STUDY

Three commands were selected for study. The first was the Naval Postgraduate School. It was selected for two reasons; the desire to include at least one training command in the group of commands studied, and the fact that the thesis on which the original game was based also studied the school. The second command selected was the Naval Air Station, Brunswick, Maine. It was selected because it is an operational line command, and because the author, in receipt of orders

to that command at the time of this writing, wished to integrate material learned as a student in the MN-4154 course with existing conditions at his next duty station. The third command selected was the Supervisor of Shipbuilding, Conversion, and Repair, USN, Bath, Maine. It was selected to include the Navy's industrial base in the study and because its proximity to Naval Air Station, Brunswick would result in conservation of travel funds.

C. OTHER RESEARCH DECISIONS

In a preceding chapter the comptroller was identified as the person having primary responsibility for making budget execution recommendations to the commanding officer. It was therefore decided to focus the research on the comptrollers of the command selected for study.

The research was conducted by on site interview and review of records. The Naval Postgraduate School was studied first to refine the research questions if necessary prior to leaving the local area.

The research questions are contained in Appendix A. The interviews were not limited to those specific questions; rather, those questions were used as topics for discussion.

The research plan was to interview the comptroller first, and then get answers to specific questions from the comptroller's subordinates.

IV. RESEARCH RESULTS

This section is a compilation of the results of the research conducted at each of the three commands. Each command is treated individually, then similarities and differences among the three commands are discussed.

A. The NAVAL POSTGRADUTE SCHOOL

1. General Command Information

The first command studied was the Naval Postgraduate School, Monterey, California. It was chosen for two reasons. First, the original thesis upon which this thesis is based used the Naval Postgraduate School as a basis for development of the first game. Second, in order to draw upon a wide spectrum of comptrollership activity, it was decided to include commands other than operational, line commands.

During the period 22 August 1985 to 30 August 1985, three persons in the Comptroller Department were interviewed. The Comptroller, Captain W. H. Siren, USNR, Mr. Robert Jay, Deputy Comptroller, and Mrs. Joanne Hughes, Budget Officer provided the factual information and the opinions which are presented in this section of the thesis. Opinions of the author are specifically identified as such.

The Naval Postgraduate School, located on the grounds of the old Del Monte resort hotel in Monterey, California,

provides graduate level education to U. S. Navy officers, officers of other U. S. services, civilian government employees and officers of allied military services. Physical facilities are owned entirely by the U. S. government. There are approximately seven hundred and twenty permanent, full time civilian employees (including faculty and staff), an additional 200 research personnel paid from reimburseable funds, and a military staff of approximately one hundred eighty officers and enlisted personnel. The student population averages sixteen hundred persons. The school operates on the academic quarter system with four instructional quarters per year.

The Deputy Comptroller, Mr. Jay, estimated that in fiscal 1985, the school's total monetary impact on the local economy could be as much as \$128 million comprised of \$100 million in staff and student salaries and local procurements, and \$28 million in construction contracts awarded to local companies. Although this figure may be technically accurate, it is the author's opinion that the actual amount is considerably less because many of the students are here for relatively short periods of time and probably defer major purchases, if possible, until they move to a less costly location. The potential financial impact of the command on the local economy is important because it may constrain the

commands ability, in a political sense, to implement actions such as reductions in personnel force which may become necessary due to changed financial resource availability.

Wage rates and cost of living in the Monterey Bay area are among the highest in the continental United States. For this reason, civil service wage grade rates (set by the U. S. Department of Labor and not under the control of the school) are maintained at a high level, in relation to other regions of the country, in order to attract competent, qualified employees. Mr. Jay estimated that with the current expansions in the Monterey area and its attendant construction, the impact on the local economy of a minor reduction in force (if such action were ever to become necessary for budgetary reasons) would be negligible.

There are fifteen tenant activities for which the school performs services on a reimburseable basis. The school also receives services for which it must reimburse other activities. For reimburseable support, there are an average of 15 inter-service support agreements ranging in annual value from less than \$1,000.00 to more than \$3.5 million. These agreements are negotiated for a three year term with annual reviews. The agreements expire at various times throughout the fiscal year. The largest of the support agreements is a \$3.5 million (FY85) agreement with Naval Facilities Engineering Command under which the school itself

and the adjacent La Mesa government housing area receive fire protection, police protection, and general public works support.

In addition to the support agreements for day to day operation of the command and the tenant activities, the school holds (as of August 1985) 414 reimbursable orders for research work. The 414 orders have a total value for FY85 of \$18.3 million. An additional \$4.5 million in reimbursable funds is provided to the school for tuition costs for foreign students and non-Navy U. S. students. Total reimbursable funds for fiscal 1985 are \$26.8 million which includes the \$18.3 million in research money, the \$4.5 million intuition money, and \$4.0 million for tenant activity support which was addressed in a previous paragraph. The research orders are firm, maximum price orders, which have occasionally caused difficulty when it has become apparent that costs would exceed the authorized amount; funds remaing on orders which are completed below the maximum price ceiling must be returned to the command that issued the order and may not be used to increase the amount of other orders in which a shortfall exists.

The Naval Postgraduate School is an Echelon II command which reports to the Chief of Naval Operations. The sponsor from whom funding for direct operations is received is OP-09BF. Total direct funding received from the sponsor for fiscal 1985 is approximately \$28.5 million. The command does not manage any Navy Industrial Fund or revolving stock fund monies.

As an Echelon II command, the funds provided by the sponsor are in the form of an expense limitation rather than an operating target. As such, the Superintendent is accountable and liable to legal penalties in the event that funds are spent in excess of the expense limitation, or for purposes for which funds have not been appropriated. Although not legally liable, the command comptroller is administratively responsible and would be held professionally accountable if he should permit such a violation to occur.

Prior to fiscal year 1985, the school was an Echelon III command reporting to Chief of Naval Technical Training (CNTT). The change in command structure came about after the initial submission of the Fiscal 1985 budget. Because the budget was originally submitted in accordance with budget call guidance received from CNTT, and the budget authority was ultimately granted by CNO, comparing the requested amount with the authorized amount may be inconclusive, especially if the comparison is extended to the other commands studied which did not experience such a realignment in command structure.

2. Initial Allocation of Annual Planning Figure

Budget Execution is designed to begin with assignment of the annual planning figure by the sponsor on or before 1 October of each fiscal year. Concurrent with the assignment of the annual planning figure should be the authorization to

spend the new fiscal year's funds. Due to the recurring inability of the Congress to act on time, all government agencies frequently find themselves with neither authorization to spend the new fiscal year's funds nor with an annual planning figure on 1 October. When Congress fails to enact the necessary authorization legislation prior to the start of the fiscal year, one of two things happens; either a continuing resolution is passed by the Congress, in which case agencies are authorized to expend new fiscal year funds at a rate not exceeding the rate used at the start of the just expired fiscal year, or no resolution is passed, in which case the government effectively shuts itself down. In fact, on 1 October 1984 the Naval Postgraduate School was required to dismiss all non-essential employees from work because no funding had been authorized by Congress.

Actual allocation of the annual planning figure is an extension of the budget planning process. The Naval Postgraduate School has a Resources Planning Board which is charged with the responsibility for recommending to the commanding officer (the Superintendent) the necessary allocation of funds. The Resources Planning Board meets monthly, or more frequently if necessary, and reviews both the current fiscal year and the upcoming fiscal year budgets. Changes are recommended to the Superintendent as necessary. If the annual planning figure granted by OP-09B were to agree

with the amount requested in the budget request, no further action (other than to initiate the spending in accordance with the local budget) would be required.

In fact, the annual planning figure has never, to anyone's recollection, agreed with the budget request. In that case, the Resources Planning Board meets to recommend changes to the Superintendent. The board is comprised of two of the Academic Deans, The Director of Military Operations, and the Director of Programs with the Provost as chairman. The Civilian Personnel Officer and the Comptroller are members, ex officio. The Superintendent, who is accountable under Title 31, U. S. Code, sections 1341 and 1517, retains final authority to accept or reject the recommendations of the board.

As an example of the differences between the budget request that was submitted and the amount granted as an annual planning figure, the following data were obtained for fiscal 1985. The original budget request was \$28.126 million. The sponsor cut \$2.4 million prior to submitting the request to the Department of Defense. An additional \$621 thousand was cut by DOD prior to submitting the DOD budget to Congress. As a result of Congressional action, an additional \$341 thousand was cut which resulted in a net annual planning figure of approximately \$24.75 million. The difference between the initial \$24.75 million and the

final \$28.5 million (as of September 1985) was made up by supplemental requests and the mid-year review process.

As soon as the allocation of the annual planning figure is approved by the Superintendent, the Comptroller informs each department head of the amount of his funding for the year, by quarter and for the year as a whole.

3. Unfunded Requirements

Because it is anticipated that the annual planning figure will not be sufficient to fully fund all of the school's requirements, a list of unfunded requirements is maintained and is the basis for the submission of the mid-year review request to the sponsor, usually in March of each fiscal year. The unfunded requirements list contains data for the current fiscal year. The unfunded list for fiscal 1985 contained six items with a total value of \$2.2 million dollars. Of this \$2.2 million, the school has been granted \$900 thousand.

In addition to the unfunded requirements lists, each budget request contains items for the next two fiscal years which were either previously requested and denied during some phase of the budget planning process, or emergent items which had not been previously requested but which are considered critical to the command's mission. Seven such items with a total value of \$11.8 million have been submitted for fiscal 1986, and six items with a total value of \$3.7 million have been submitted for fiscal 1987.

4. Externally Imposed Constraints

This section examines actions of agencies external to the command which have an impact on the command's budget and can be reasonably expected to result in budget adjustments. Normally anticipated requirements are not considered-- these requirements are generally known in advance and proper planning should result in having sufficient budget authority available at the start of the fiscal year to fully fund them. The focus of this section is on unexpected events that cannot be anticipated by a reasonable amount of prudent planning.

Except for the provisions of Title 31 U. S. Code which prohibit expenditure of funds in an amount in excess of the amount appropriated, or for a purpose for which no appropriation has been passed, the sponsor does not impose restrictions on the items for which funds may be spent. For example, the cuts that were imposed by the sponsor in the fiscal 1985 budget were dollar value cuts only; they were not prohibitions on spending money for any particular purpose. The sponsor did, however, state the reasons for the dollar value cuts; one such reason was that the sponsor considered that too much had been requested for telephone service. Although the reason for the cut was specific, it did not preclude the command from expending the requested amount on telephone service provided that the deficiency was made up somewhere else in the budget. The budget officer indicated

that the sponsor allows the school to readjust funds within and among activity groups and sub activity groups at the school's discretion, although the sponsor occasionally does request justification for such adjustment.

No instances could be found where a military echelon senior to the sponsor had imposed a significant requirement on the school without identifying a source of funding to satisfy the requirement. Comptroller personnel could not rule out the occurrence of such actions, but stated that none came to mind and none could be found in the records. It may be safely assumed that if such instances do occur, they are minor in financial impact and relatively easily accommodated within current budget constraints.

Similarly, no instances could be found wherein another government agency mandated an action for which the school had not been funded. However, Mr. Jay recalled that, while serving in a previous position, he had an experience in which the Occupational Safety and Health Administration (OSHA) mandated asbestos removal from government buildings. In that case, the sponsor did not provide additional funding immediately; the program had to be initiated within existing budget constraints by reprogramming funds at the local level. Some funding was eventually received from the sponsor but some came from local resources. To make up the difference between the amount expended on the program and the amount

received from the sponsor, other building programs, (such as scheduled painting and upgrading of plumbing) were delayed.

The external actions that have caused the most problem for the school have been in the area of utility rates. Pacific Gas and Electric Company has had three unexpected rate increases of five percent each during fiscal 1985. This would normally have increased the actual usage beyond the budgeted amount. At the start of fiscal 1985, \$1,537,000 had been budgeted for electricity. Because of the rate increases, a significant shortfall was anticipated if usage had continued at the budgeted rate. The deficiency caused by this unexpected increase in utility rates has been made up by an extensive utility conservation campaign. The conservation campaign has been so successful that overall expenditures on electricity are expected to actually decline below the budgeted amount. As of the end of August, 1985, the budgeted amount for the fiscal year had been reduced to \$1,465,000. Mr. Jay indicated that, in this case, conservation successfully reduced the demand for electricity; however it is not possible to continue to reduce usage indefinitely. The next time this particular situation arises, conservation may not be a viable option and some other alternative may have to be developed. In dealing with emergent situations, whether externally or internally generated, the appropriate response is predicated on the existing circumstances, not on the nature or classification of the event itself.

The school has not experienced any natural disaster such as earthquake, wind, flood, or fire that would have a material impact on the school's budget. The generally benign climate in the Monterey Bay area makes such occurrences unlikely, except for earthquakes. However, Mr. Jay recalled that, while serving in a previous position in the mid-western states, he occasionally encountered winter weather that was so abnormally severe that additional heating and snow removal costs necessitated a budget adjustment.

Neither the asbestos removal problem nor the severe weather problem occurred at the Naval Postgraduate School. However, they are generic problems that could be faced by a financial manager at any duty station. They are also representative of the types of problems the effects of which cannot be mitigated by prior planning. To a significant degree, they are chance events that must be dealt with if and when they occur. Because the objective of this research is not to study the individual commands, but to determine what types of problems confront comptrollers throughout the Navy, the consideration of these generic problems as game candidates is considered wholly appropriate. Also, these problems are considered to be appropriate game material because they affect not only the financial managers but the line managers as well. Many of the students enrolled in the MN-4154 course will

never be comptrollers, but will be required to work with the command's comptroller in the process of resolving them. A case in point is the utility rate increase problem. That problem could not be solved entirely by the comptroller--sufficient funds just were not available; the line managers had to get involved and help alleviate the problem by finding a way to reduce usage.

5. Internally Generated Constraints

The focus in this section is on actions taken at the local level which have a significant impact on the budget. These actions are, by definition, controllable by the Superintendent. Although they are controllable, it may not be possible to anticipate them. For example, actions by vendors may make it economically desirable in the long run to expend additional funds during the current year to take advantage of quantity discounts or unexpected price concessions. Also, when certain required actions are necessary, it may be to the command's financial advantage to simultaneously complete discretionary items that had been programmed for later periods.

One of the most obvious local actions is providing additional funds to department heads who "just run out of money." To preclude this from happening, the Comptroller department produces a monthly obligation report which shows in detail the amount each cost center is authorized, the amount expended to date, and the amount remaining. Mr. Jay looks for deviations

from a straight line obligation rate, or for deviations from the cost center's anticipated obligation rate if it is known that a straight line rate is not appropriate. Some cost centers are cyclical in their obligation rates. If the observed obligation rate deviates from the expected rate, the Comptroller department brings the deviation to the attention of the responsible person.

There is no money set aside at the beginning of the fiscal year to fund voluntary initiatives. The command stresses prior planning in accordance with procedures in the Planning Programming and Budgeting System. The Superintendent does maintain a reserve fund which he can use to fund voluntary initiatives or to fund unexpected requirements.

6. Budget Execution Procedures

Research at the Naval Postgraduate School disclosed that the most important element of successful budget execution is proper planning. This philosophy is consistent with the philosophy expressed by the instructors in the MN-4154 course. However, no amount of planning can be expected to preclude all emergent requirements. Even if it were possible to do so, the cost would be prohibitive. There must be a trade off between the resources devoted to planning and the resources consumed in managing emergent situations. The persons interviewed in the comptroller department expressed the view that planning for those eventualities which are likely to

occur saves both time and money, but there are some events that are more economically managed by reacting if and when they occur.

Effective budget execution consists of three separate but complementary steps. First, establish the appropriate trade off between the amount of planning to be done and the amount of situational reaction to be tolerated, then plan accordingly. Second, involve the people who helped develop the plan when emergent situations arise that mandate a change from the approved plan. Third, determine the anticipated obligation pattern for each portion of the budget and establish procedures to monitor the obligation rate as often as necessary to detect deviations before they become significant.

No specific pattern could be identified at the Naval Postgraduate School that would suggest that there are time-proven procedures that are effective in specific categories of emergent situations. Emergent situations are handled on an ad hoc basis simply because there is no way to anticipate the surrounding circumstances that might exist at the time of their occurrence.

B. THE U. S. NAVAL AIR STATION, BRUNSWICK MAINE

1. General Command Information

The U. S. Naval Air Station, Brunswick, Maine was the second command studied. It was selected to represent the operating forces. During the period 23-27 September 1985,

interviews were conducted with Lieutenant Commander Bruce D. Kincaid, SC, USN, the comptroller of the command, and Mr. Edward Stachowiak, III, GS-13, Deputy Comptroller. Other personnel in the comptroller department provided occasional answers to specific questions, but they were not interviewed in depth.

The U. S. Naval Air Station, Brunswick, Maine is an Echelon V command that reports for administrative purposes to Commander, Patrol Wings Atlantic (COMPATWINGSLANT), and for financial accountability purposes, to Commander Naval Air Force, U. S. Atlantic Fleet (COMNAVAIRLANT).

The mission of the command is to maintain and operate facilities and provide services and material to support operation of aviation activities, units of the operating forces of the Navy, and other activities and units, as designated by the Chief of Naval Operations. Basic categories of support include, (1) aircraft maintenance, (2) administration, (3) supply operations, (4) maintenance of material, (5) base services, (6) maintenance of real property, (7) utilities, (8) general engineering support (9) minor construction, (10) personnel support, (11) Automated data processing support.

The command employs 458 civil service personnel and 375 non-appropriated fund personnel for a total of 833 civilian

employees. There are 572 military personnel assigned to the command and another 2200 military assigned to tenant activities.

During 1984, the economic impact on the local area was approximately \$131 million comprised of \$60 million for military pay and allowance, \$15.6 million for civilian salaries, and the remainder for local purchase and contract construction work. Although the Naval Air Station is the second largest employer in the state (when both military and civilian personnel are included), the effect of any reduction in force would be minimal because the local commuting area includes Maine's two largest cities--Portland which is twenty-six miles to the south, and Augusta which is thirty miles to the north. Base employees come from the local community, from Portland and Augusta, and from points beyond. If a reduction in force became necessary for budgetary reasons, those two cities would easily assimilate the displaced workers. Nonetheless, the military is considered to be a major presence in the community, and a reduction in force would have a deleterious effect on relations with the local community. The comptroller indicated that a reduction in force would be a measure of last resort as a means to balance the budget.

There are 31 commands which are tenants located within the confines of the Naval Air Station, and 17 other activities which the Naval Air Station supports although they are located

outside the physical limits of the station. Of these 48 activities, 33 are supported with Interservice Support Agreements, while 15 are supported directly as part of the mission of the station. All support agreements currently in force are for the Naval Air Station to provide support to other activities; there are none for the station to receive support. The 33 agreements have an aggregate value of \$1.1 million for fiscal year 1985, and all agreements are negotiated for a period of three years with a provision for annual review.

The annual budget for fiscal 1985 is \$25.8 million. Of this total, \$14.7 million is direct Operation and Maintenance, Navy funding for base operating support, and the remainder is reimburseable funding from tenants and other supported activities. The command has a \$30 million stock fund which is managed in its entirety by the supply officer; the comptroller has no responsibility for management but does provide accounting services.

There is a labor agreement with local 1-77, National Association of Government Employees. The agreement does not unduly restrict management's ability to make adjustments to the workforce which might from time to time become necessary for budgetary reasons. The agreement states that the employer retains the right to determine the mission, budget, organization, and number of employees; and to determine the number, types, and grades of employees or positions assigned.

The comptroller and deputy comptroller both stated that they perform all the functions specified in NAVCOMPT Manual Volume One except for the Internal Review function. That function was part of the comptroller department until July, 1985, at which time it became a separate entity which reports directly to the commanding officer.

The station receives an operating target from COMNAVAIRLANT, the sponsor. Because the funding authority is granted in the form of an operating target rather than an expense limitation or an expense operating budget, the provisions of Title 31, U. S. Code regarding over-obligation do not apply. The commanding officer is responsible administratively, but he can not go to jail for a violation. Whether the liability is legal or administrative, it was obvious that both the commanding officer and the comptroller are career, professional naval officers who take their responsibilities seriously and routinely do their best to safeguard government funds entrusted to them.

2. Initial Allocation of the Annual Planning Figure

For fiscal 1985, the annual planning figure assigned by COMNAVAIRLANT was \$14.783 million dollars, \$758 thousand less than the requested APF of \$15.541 million.

The sponsor provides limited guidance on adjustment of the budget. When the APF is assigned, amounts are set aside (or "fenced") for maintenance of real property, temporary

additional duty travel, and civilian employee end strength. Upon receipt of the APF, the command is required to submit a spending plan to COMNAVAIRLANT detailed to the level of specific sub-activity groups. The plan need not be in accordance with the original budget request. Once the plan is submitted and approved, changes in excess of \$50 thousand between one SAG and another must be approved in writing when the next spending plan update is submitted. Revised spending plans are submitted quarterly and the \$50 thousand limitation applies to each quarter, not to the entire fiscal year. The comptroller could recall only one instance during the past two fiscal years wherein COMNAVAIRLANT rejected a request for reprogramming in excess of \$50 thousand. Although the request was initially rejected, it was subsequently approved when additional justification was provided. As part of the spending plan, the command is required to submit a requested quarterly allocation of the APF.

The command has no written guidance on how shortfalls will be resolved, but it does have an active budget steering committee which is comprised of all department heads and chaired by the executive officer. The comptroller is a member ex officio, and is also a member because he is a department head. The budget steering committee participates in developing the initial budget request and is also active in resolving shortfalls when the APF is assigned. The resolution procedure essentially consists of all department heads getting together

and discussing the merits of budget line items. After the discussion, a prioritized list of cuts is prepared for review and approval by the commanding officer. In the event that the department heads are not able to resolve the shortfall, the comptroller recommends a resolution. Prior to the resolution process, the comptroller breaks the budget into three categories. First are items which must be fully funded because of the requirements of higher authority or the commanding officer's stated desires. Second are items which are currently unfunded but for which, in the comptroller's estimation, funding will probably be received from the sponsor during mid year review. Third are items which are considered to be internal items which are completely within the capability of the command to adjust without having a negative impact on the assigned mission.

These procedures are used every year. Historically, the APF assigned at or near the start of the fiscal year has always been less than the amount in the budget request.

3. Unfunded Requirements

The command maintains two unfunded requirements lists. The first contains items which must be fully funded in the course of the year, even if reprogramming authority must be requested from the sponsor. The second list contains items which are not mandatory but which are considered necessary for efficient operations. The comptroller indicated

that the "must fund" items are generally not a problem because they are identified early in the fiscal year and resolved prior to submission of the initial spending plan. The list which contains the necessary, but not mandatory, items had a total value of \$950 thousand as of July 1985. The list contained 104 line items ranging in value from a low of \$200 to a high of \$54 thousand. None of the items were holdovers from fiscal 1984, and all were scheduled to be fully funded before the close of fiscal 1985. Although the initial APF has not in recent years been sufficient to cover all budget items, the command has for the past two years been able to fund all unfunded requirements either by reprogramming or by successfully requesting additional funding from COMNAVAIRLANT.

COMNAVAIRLANT requires that unfunded requirements lists be submitted with the initial spending plan, with add-on and deleted items shown on subsequent spending plan submissions.

4. Externally Imposed Budget Adjustments

This section examines actions of agencies external to the command which have an impact on the command's budget and can reasonably be expected to result in budget adjustments. Normally anticipated requirements are not considered--these requirements are generally known in advance and proper planning should result in having sufficient budget authority available at the start of the fiscal year to fully fund them. The focus

of this section is on unexpected events that cannot be anticipated by a reasonable amount of prudent planning.

The Naval Air Station has experienced occasional situations in which they have been tasked by commands senior to the sponsor to perform functions for which they have not been funded. The most notable of these situations is participation in fleet exercises on a no-notice or very short notice basis. Although these exercises are within the scope of the command's mission, they are unbudgeted and unfunded because of the unpredictability of their occurrence. In these situations, the mission is accomplished first, and funding is obtained later. Two options exist for handling the funding requirement. Either the local budget is reprogrammed to provide the money, or relief is sought from the sponsor. Frequently COMNAVAIRLANT tells the command to reprogram locally to cover the immediate requirement, and then submit the details of the expenditure as an emergent, unfunded requirement for consideration as funds become available. The comptroller indicated that COMNAVAIRLANT has made significant effort to provide funding after the fact for these types of situations where the amounts are significant.

Similarly, there have been unbudgeted, unfunded requirements which have been necessitated by the actions of other government agencies and civilian organizations which are totally beyond the control of the Navy. One such

situation was the divestiture of American Telephone and Telegraph. That action increased the annual outlay for communications services by \$400 thousand due to changes in the rate structures. Another such situation was an unanticipated change in requirements by the Occupational Safety and Health Administration which resulted in an immediate requirement to expend \$100 thousand on improvements to the facilities for stowage of flammable materials. Both of these situations were considered to be "must fund" items. Permission was obtained from COMNAVAIRLANT to reprogram funds locally, and additional funding was subsequently received to cover the shortfall in areas affected by the reprogramming.

Natural disasters are rare in New England. The weather is known to be severe in the winter, and significant resources are budgeted to ensure that manpower, supplies and equipment are available to remove snow, and de-ice runways and aircraft. Nonetheless, the unexpected does occur. Recently, an unexpectedly severe winter resulted in excessive expenditure on labor for snow removal operations. A vicious winter, although expensive, fortunately occurs relatively early in the fiscal year which provides sufficient lead time to recover before the end of the fiscal year. Hurricanes are a different matter, however. On Friday, 27 September 1985 it became obvious that hurricane Gloria would most likely strike Brunswick. This fact became apparent one working day prior to the end of the fiscal year when the comptroller department

and the supply department were both working at capacity to ensure timely obligation of year end balances. Funds had been reserved for just such an emergency, but documents for other necessary expenditures had also been prepared to obligate those funds at the last minute to fully expend any remaining balances. Early Friday afternoon, the potential effect of the storm could not be estimated. Would significant damage be sustained? Would overtime be required on the weekend to restore the base to operating condition in the event that buildings, runways, and communication and navigation equipment were rendered inoperable? Then, at 1400 hours, the commanding officer closed the base and sent all non-essential personnel home for reasons of safety. Luckily, and here is where good planning makes reacting to emergent situation easier, the amount reserved exceeding the amount that could reasonably be expected to be required, even for hurricane damage. The documents were ready for immediate obligation on Monday morning, 30 September if no additional expense was incurred. At the same time, the comptroller would not be faced with an over-obligation situation in the event that storm damage necessitated mission-essential overtime work on 28 and 29 September.

5. Internally Imposed Budget Adjustments

The focus in this section is on actions taken at the local level which have a significant impact on the budget. These actions are, by definition, controllable by the

commanding officer. However, although they are controllable, it may not be possible to anticipate them. For example, actions by vendors may make it economically desirable in the long run to expend additional funds during the current year to take advantage of quantity discounts or unexpected price concessions. Also, when certain required actions are necessary, it may be to the command's financial advantage to simultaneously complete discretionary items that had been programmed for later periods.

One of the most obvious local actions is providing additional funds to department heads who "just run out of money." To preclude this from happening, the comptroller distributes a weekly funds status report to all department heads. The comptroller reviews the reports for obvious deviations from the anticipated obligation rate and also encourages department heads to compare the report to the department's own memorandum records. The philosophy at the command is that it is not the comptroller's job to keep every department head out of trouble. Operating targets are assigned to each department and they are expected to operate within those targets. The comptroller and his staff are available to assist with technical guidance and to help in resolving problems, but the burden for remaining within the established target is placed on the individual department head. Department heads who "just run out of money" are required to justify their actions to the commanding officer.

The comptroller department also monitors all open purchase requests to ensure that department heads do not over obligate. This monitoring process also provides an additional check on the propriety of the purchase before the document goes to the supply department for purchase action. Additionally, the comptroller department reviews the purchase document for correctness of the accounting data to ensure that the correct appropriation is charged.

The comptroller indicated that most departments do a generally good job in monitoring their expenditures on "things." Problems do tend to be experienced, however, in the area of overtime. A recent audit disclosed that time-keeping controls and controls over the authorization and use of overtime are excellent. The problem arises in anticipation of the amount of overtime needed.

The commanding officer does not keep a reserve. The comptroller has advised the commanding officer to allocate all funds received for their intended purpose and to make adjustments as necessary. This may seem to be in conflict with the "hurricane reserve" mentioned earlier, but, in fact, it is not. The items identified for year end funding were known to be necessary but not essential to the command's mission. Department heads knew in advance that these items would not be funded if higher priority requirements became known prior to the end of the fiscal year.

6. Budget Execution Procedures

Budget execution procedures at NAS Brunswick are similar to those found at the Naval Postgraduate School. To use an analogy from micro-economic theory, planning is emphasized to the point where the anticipated return on additional planning is equal to the estimated workload that would result from failure to plan further.

There are no specified procedures for resolving emergent situations. The tendency is to pursue a request for funding relief with the sponsor and to reprogram internally if that attempt fails.

The comptroller did stress the need to maintain an on-going relationship with the COMNAVAIRLANT comptroller. LCDR Kincaid does not wait until he has problems to call COMNAVAIRLANT. Rather, he tries to maintain a dialog during normal operations so that there will be a good working relationship in place that can be useful in times of stress. LCDR Kincaid also stressed the need for honesty. His experience has been that he has been successful in obtaining funding relief because he is open and honest about his command's needs. A significant part of this honest relationship includes promptly reporting situations which make funds available for reassignment to other commands.

C. THE SUPERVISOR OF SHIPBUILDING, BATH, MAINE

1. General Command Information

The third command studied was the Supervisor of shipbuilding, Conversion, and Repair, USN, Bath, Maine (SUPSHIP). It was chosen to represent the Navy industrial base. Since it does not have a formally established comptroller position or comptroller department as do the other two commands in the study, it allows a comparison of procedures between commands that have a formal comptroller organization and those that do not. This allows determination of whether or not there are any significant differences in budget execution procedures between the two.

During the period 25-27 September 1985, Commander George W. Perkins, SC, USN was interviewed. Commander Perkins' title is Contracts Officer, however, as will be shown later, he is the individual charged with the responsibility for the comptroller function.

SUPSHIP is an Echelon III command that reports directly to the Commander, Naval Sea Systems Command. The mission of the command is to supervise the accomplishment of Navy shipbuilding and ship repair contracts that are awarded to private contractors in the state of Maine. There are 282 full time civilian employees, and a staff of 16 military officers and enlisted personnel. The physical facilities are not government owned. All buildings occupied by SUPSHIP are provided under the terms of one or more shipbuilding/repair

contracts by the primary contractor, Bath Iron Works Corporation. Utilities and building maintenance, including janitorial services, are provided by the contractor.

The command is organized in accordance with the standard SUPSHIP organization plan promulgated by NAVSEA. There are six departments; Command and Staff, Engineering, Quality Assurance, Contracts, Material and Logistics, and Repair. Construction work for new ships is managed by project offices located within the Command and Staff Department, and overhaul work is managed by the Repair Department.

Funding for SUPSHIP operations, exclusive of funds for the actual execution of contracts, is provided by NAVSEA. NAVSEA issues an expense operating budget to SUPSHIP. Expense operating budgets are subject to the provisions of 31 USC sections 1341 and 1517 which provide for legal penalties for the commanding officer in the event that the expenditures exceed the authorized amount.

There is no separate comptroller department. The comptroller functions specified in the Navy Comptroller Manual are performed by the Contracts Officer, a Navy Supply Corps officer, who is head of the Contracts Department. The contracts officer is not legally liable under the provisions of 31 USC 1341 and 1517 but is professionally held accountable by the commanding officer for violations, should they occur.

There are no tenant activities. The one Intra-service support agreement is for support received from the Naval Air Station, Brunswick, Maine (the second command in the study). The Intra-service support agreement is to reimburse the Naval Air Station for vehicle rental costs, and for costs associated with the enlisted berthing facility used by crews of ships assigned to SUPSHIP for overhaul. The agreement is negotiated for a three year term with provisions for annual review.

SUPSHIP does not manage any revolving stock funds, but there are reimburseable funds provided to SUPSHIP by commands other than NAVSEA. These funds are for the use of the command in accomplishing certain minor items that become necessary but were not included in the original ship repair contract, or for the use of SUPSHIP personnel when travel becomes necessary in support of a particular contract. For example, Commander, Naval Surface Force, U. S. Atlantic Fleet provides reimburseable funds for the accomplishment of minor work items on SURFLANT ships. Also, they provide funds to be used by SUPSHIP personnel when traveling to conferences in support of SURFLANT work. General travel that is conducted for business that is considered to be generic SUPSHIP business, not related to a particular ship or contract, is funded from the expense operating budget granted by the financial sponsor, not reimburseable. An example of such generic travel would be travel for

engineering department personnel to a conference to hear reports on the shipbuilding industry in general.

The bulk of the work done by contractors under the cognizance of SUPSHIP is funded by contracts awarded by the Naval Sea Systems Command. The administration of the funds authorized by these contracts comes within the purview of contract administration rather than comptrollership. Therefore, these funds are not considered germane for the purposes of this research.

In relation to the local economy, SUPSHIP is a significant employer. However, the Brunswick Naval Air Station, four miles away employs many more people than does SUPSHIP, and Bath Iron Works, with close to eight thousand employees is the largest employer in the state. Should a reduction in force become necessary for budgetary reasons, there exists a demand at Bath Iron Works for many of the professional people who could be displaced and a market at the Naval Air Station for the administrative and clerical people. Because the federal government plays such a large role in the Bath-Brunswick community, a reduction in force would have more of a political impact than an economic impact.

There is a labor agreement with Local 2906, American Federation of Government Employees. The agreement negotiated under public law 95-454 has essentially the same wording as the agreement at the Brunswick Naval Air Station regarding

the rights of management in the area of employment. Management has the right to determine the mission, budget, organization, and number of employees; and to determine the numbers, types, and grades of employees or positions assigned. This wording would permit a reduction in force for budgetary purposes in the event that such action became necessary.

2. Initial Allocation of Annual Planning Figure

For fiscal years 1982 through 1985, the assigned annual planning figure has always been less than the amount requested. In 1982, \$6.9 million was requested and \$6.8 million assigned. In 1983, \$8.6 million was requested and \$7.7 million was assigned. In 1984, \$9.6 million was requested and \$8.2 million was assigned. In 1985, \$10.5 million was requested and \$9.9 million was assigned. Although the command has routinely experienced decreases in the initial assignment, they have been successful in obtaining funding augments from NAVSEA as each of the fiscal years progressed.

SUPSHIP does not allocate its annual planning figure to departments, except in the areas of incentive awards for employees, travel, and overtime. As part of the planning and budgeting process, each department is asked to identify its requirements for travel and overtime. Grants are made to the departments by the commanding officer in terms of hours for overtime and dollars for travel and incentive awards.

These grants are made on a quarterly basis. Also, each department is requested to identify requirements for major equipment replacement or procurement, and for data processing services. The office services supervisor is responsible for identifying general office supply requirements for the entire command.

SUPSHIP is the only command of the three in the study that has a written command instruction on budget execution procedures. The instruction begins with the planning requirement delineated in the preceding paragraph and continues to state specific responsibilities in connection with budget execution. In the initial allocation phase, the budget officer (who reports directly to the contracts officer) is responsible for analyzing the departmental inputs and recommending an allocation for each department to the commanding officer. Once the plan is approved by the commanding officer, the command budget is promulgated to all departments. Individual department heads may request adjustment directly from the commanding officer. Because there are only six departments, a budget planning or steering committee is not considered to be necessary as it is in the other two commands studied.

In allocating the annual planning figure, NAVSEA provides only limited guidance regarding the purposes for which funds may be expended. The only amount considered to be fenced is the portion of the annual planning figure which

NAVSEA identifies for facilities maintenance. Although all facilities for the SUPSHIP staff are provided by the prime contractor, there is a barracks at the Brunswick Naval Air Station which is assigned to SUPSHIP for the use of ship crews when shipboard work renders the ship uninhabitable. Funds fenced for maintenance of this barracks may not be used for any other purpose. Other than that one limitation, SUPSHIP is free to reprogram internally without prior permission of NAVSEA.

3. Unfunded Requirements

Because of the small size of the command, the commanding officer and executive officer are intimately familiar with the needs of each department. There is a bi-weekly department head meeting at which the five department heads discuss problems with the commanding and executive officers. Also, the department heads usually have daily contact with the commanding and executive officers. therefore, the command does not consider it necessary to maintain an unfunded requirements lists.

4. Externally Imposed Budget Adjustments

This section examines actions of agencies external to the command which have an impact on the command's budget and can reasonably be expected to result in budget adjustments. Normally anticipated requirements are not considered-- these requirements are generally known in advance and proper planning should result in having sufficient budget authority

available at the start of the fiscal year to fully fund them. The focus of this section is on unexpected events that cannot be anticipated by a reasonable amount of prudent planning.

The contracts officer could not recall any instances during his tenure wherein an echelon senior to NAVSEA directed that action be taken which resulted in a serious impact on the budget. However, there have been several instances wherein NAVSEA has directed SUPSHIP to support projects in remote areas without providing additional funding. These assignments usually involve only the travel portion of the budget if military members of the command are involved, but overtime costs can increase dramatically if civilian employees are required to travel. The command identifies its travel requirement by two categories; travel for mission, and travel for training. In the event that additional mission travel becomes necessary and is unsupportable under the existing budget, travel for training money is used to augment mission travel, and training is postponed.

Non-government activities have an infrequent but significant impact on SUPSHIP budget execution. SUPSHIP has absolutely no control over which shipyards will bid on which Navy shipbuilding and repair contracts. Similarly, SUPSHIP has no control over which contracts will be awarded to what shipyards. When a contract is awarded by the Navy to a private facility within the state of Maine, SUPSHIP is automatically required to supervise the contractor. In 1983, Bath Iron Works

Corporation was awarded a contract to build an Aegis Missile Cruiser. Within days of the contract award, SUPSHIP personnel had to travel to Washington D. C. for planning meetings, and overtime was required in Bath to begin setting up a project office. NAVSEA stated that the initial start up costs could be expected to be small and that augmented funding would not be provided until the project workload increased substantially. Internal reprogramming was required in order to support this new requirement. Even before the contract award, SUPSHIP knew that Bath Iron Works Corporation had submitted what the Iron Works called a very aggressive bid on the contract proposal. Since no work had been assigned, NAVSEA would not provide funding. SUPSHIP, however, could not wait until the contract award to begin planning. To do so would have caused the command to appear unprepared when the contract was finally awarded. Planning for the contingency that the contract might be awarded to Bath Iron Works Corporation had to be accomplished by reprogramming.

Bath Iron Works also decided to open a new shipyard in Portland, Maine, thirty miles south of Bath. This was an independent corporation decision that was not influenced in any way by the government. Now that the new facility is open, some work is done in Bath and some in Portland; all of it requires government supervision. The requirements for SUPSHIP employees to be in one location or the other change frequently, and until the new facility was observed in operation, it was not possible

to accurately forecast personnel requirements. An intensive study which lasted several months during early 1984 disclosed many costly potential problems in the area of personnel assignment. The alternatives were as follows. (1) Employees could be permanently reassigned which would result in payment of moving expenses. (2) Temporary additional duty orders could be issued on a daily basis which would result in the payment of overtime and mileage. (3) Employees could report to Bath and be transported at government expense and on government time, which would result in hiring busses and significant work time being lost to unproductive travel. (4) A reduction in force could have been used in Bath to abolish the jobs and new jobs established and recruited at Portland. The commanding officer determined that the decision had to be based on the mission. Based upon information received from Bath Iron Works about the volume and nature of work to be performed, the command estimated personnel needs. Because it was known that the estimate would probably require refinement as the new operation began to mature, the decision was made to maintain as much flexibility in personnel assignments as possible. With an estimate of the types and numbers of personnel needed, and the requirement to maintain assignment flexibility, the alternatives were priced out to determine the least cost approach. Once again, economics became a factor only after mission requirements were fully satisfied. After the least cost, mission responsive alternative was determined, funding augmentation was requested from NAVSEA.

At SUPSHIP, as at the Naval Air Station, the command responds to mission requirements and then finds a way to make the finances fit the requirements.

Because the SUPSHIP facilities are provided by the contractor, the command is virtually immune to the effects of natural disasters such as flooding or windstorm. Even the hurricane which occurred on 27 September 1985 did not have a significant impact on the command.

5. Internally Imposed Budget Adjustments

The focus in this section is on actions taken at the local level which have a significant impact on the budget. These actions are, by definition, controllable by the commanding officer. Although they are uncontrollable, it may not be possible to anticipate them. For example, actions by vendors may make it economically desirable in the long run to expend additional funds during the current year to take advantage of quantity discounts or unexpected price concessions. Also, when certain required actions are necessary, it may be to the command's financial advantage to simultaneously complete discretionary items that had been programmed for later periods.

As was seen in the studies of the Naval Postgraduate School and the Brunswick Naval Air Station, one of the

internally imposed budget adjustment situations is reprogramming that becomes necessary when a department head unexpectedly depletes his operating target. At SUPSHIP Bath, this situation can occur only in the area of overtime. Incentive awards are routed through the budget officer for identification of funding prior to going to the incentive awards committee and the commanding officer for approval. If the department has insufficient funds, the award recommendation is returned unprocessed. Similarly, all travel requests are routed through the budget officer for the same reason and the orders are not processed if the department has insufficient funds to cover the estimate of the travel costs. Department heads have the authority to approve overtime directly. This authority is granted because it is sometimes necessary to call people in at times when the budget office staff is not available to approve the request, or to retain people at work for a longer period of time than the original overtime request authorized. Department heads are expected to monitor their remaining overtime balances carefully to ensure that they do not authorize hours in excess of their balance. When the balance becomes low enough that it could be expected to be depleted, the department head must request an augmentation from the commanding officer. Travel can also be a problem, but according to Commander Perkins, not a significant one. Travel balances are decremented by the estimated cost of the trip prior to departure of the traveler. However, the actual

cost charged is not known until after the traveler has returned and filed a travel voucher. This has occasionally, but not often resulted in a department exceeding its target. These situations are considered to be beyond the department's control, and are funded either by giving the department an advance on the following quarter's target, or from the commanding officer's reserve.

To help prevent the situations that are listed in the preceding paragraph, the SUPSHIP budget instruction charges the budget officer with some specific responsibilities. The budget officer prepares a bi-weekly budget status report for review by the commanding officer. The budget officer prepares a monthly travel funds status report and a bi-weekly overtime status report for each department head. In addition, all requisitions and purchase orders which cite Expense Operating Budget funds are approved by either the commanding officer or the executive officer.

6. Budget Execution Procedures

It appears that the budget execution procedures at SUPSHIP are much more centralized than are the procedures at the Naval Air Station or the Naval Postgraduate School. This is true for two reasons. First, more than eighty percent of the command budget goes for salaries which must be fully funded. That leaves only twenty percent of the budget which can be reprogrammed locally in the event that it becomes necessary. Gapping of civilian billets can not be relied upon

to produce savings. With a small number of employees and a low attrition rate, there few billets that could be left vacant at any one time. Second, the size of the command makes centralization of budget execution procedures very efficient and not overly burdensome to the commanding officer. A larger command with a larger volume of transactions could not burden the commanding of executive officer with approval of all procurement requests.

D. RESEARCH SUMMARY

There are significant differences among the three commands. These differences are in many different areas starting with command mission and ending with procedures for allocating assigned funds. These differences notwithstanding, the comptrollers at all three commands express the same views toward budget execution and employ essentially the same procedures to ensure that the commands end the fiscal year neither over-obligated nor under-obligated.

The differences in the three categories: First, there are differences in the mission, structure, and environment of the three commands. Second, there are differences in requirements imposed by each command's financial sponsor. Third, there are differences in the manner in which the commands have chosen to establish their internal financial procedures.

1. Mission, Structural, and Environmental Differences

The missions of all three commands are different. The Naval Postgraduate School is a training command whose mission

is to provide postgraduate education and provide an environment for research. The Supervisor of Shipbuilding, Bath, is an industrial activity whose mission is to oversee the accomplishment of construction and overhaul contracts for naval vessels. The Naval Air Station, Brunswick, is an operational line command whose mission is to provide an operating base and support base for naval patrol aircraft.

All three commands are at different levels within the naval establishment. The Naval Postgraduate School is an Echelon II command that reports directly to the Chief of Naval Operations. The Supervisor of Shipbuilding, Bath is an Echelon III command that reports to the Commander, Naval Sea Systems Command. The Naval Air Station, Brunswick is an Echelon V command that reports to the Commander, Naval Air Force, U. S. Atlantic Fleet.

Two of the three commands have experienced a long-standing, stable relationship with their respective sponsors while the Naval Postgraduate School recently experienced a change in sponsorship from the Chief of Naval Technical Training to the Chief of Naval Operations.

Different operating environments exist for the three commands. The Naval Postgraduate School experiences a relatively stable tempo of operations with known inputs and expectations. The Supervisor of Shipbuilding, Bath, has an operating environment that is subject to change based on the

uncontrollable actions of private contractors and the unpredictable awarding of naval contracts. The Naval Air Station, Brunswick, has a stable operating environment for administrative matters but frequently has to respond to emergent requirements of an operational nature.

Differences in civilian manpower structure are also apparent. The Naval Postgraduate School and the Naval Air Station, Brunswick commit approximately half of their annual budget to civilian labor while the Supervisor of Shipbuilding commits eighty percent.

Two of the three commands support tenant activities while the Supervisor of Shipbuilding does not.

Unexpected events that are not of an operational nature appear to affect the supervisor of Shipbuilding less severely than they affect the other two commands. The Supervisor of Shipbuilding is insulated from these events because services of an administrative nature are provided contractually. The Naval Postgraduate School, however, has had to respond to such events as the divestiture of the telephone company, and the Naval Air Station has experienced contingencies caused by weather.

2. Sponsor Imposed Differences

Reprogramming authority is different at each command. The smallest and lowest-echelon command, the Supervisor of Shipbuilding, enjoys the most reprogramming flexibility. The Naval Postgraduate School is occasionally requested to

justify its reprogramming actions. The Naval Air Station must request specific authority in advance if the reprogramming action is in excess of \$50K.

Title 31 USC accountability is assigned to two of the three commands. The Naval Postgraduate School receives an expense limitation from the Chief of Naval Operations. The Supervisor of Shipbuilding receives an expense operating budget from the Commander, Naval Sea Systems Command. Both of these assignments carry Title 31 USC accountability which means that the Commanding Officers are subject to legal penalties (which could involve imprisonment) for obligation of funds in excess of the amounts assigned or expenditure of funds for purposes for which no appropriation has been passed by the Congress. The Naval Air Station receives an operating target from the Commander, Naval Air Force, U. S. Atlantic Fleet. The operating target is not subject to the provisions of Title 31 USC which means that over-obligation or obligation for a purpose for which no appropriation exists would be an administrative rather than a legal violation.

3. Internal Management Differences

The smallest of the three commands, the Supervisor of Shipbuilding has the best-documented procedure for allocation of the annual planning figure. There is a published command directive which delineates specific procedures and responsibilities for all phases of financial management. The other commands have no such documents.

The Naval Postgraduate School and the Naval Air Station have established committees to manage financial resources. The Supervisor of Shipbuilding, because of its size, has not.

The Naval Postgraduate School and the Naval Air Station both assign operating targets to departments which permits decentralized management of funds. The Supervisor of Shipbuilding assigns operating target for travel, incentive awards, and overtime; centralized control of all other operating funds is retained at the command level.

The three commands have different philosophies regarding the commanding officer's reserve. The Naval Postgraduate School retains a reserve; the Naval Air Station and the Supervisor of Shipbuilding do not do so. The purpose of a commanding officer's reserve is to retain control of funds that can be used for contingencies. When viewed from that perspective, the differences among the three commands disappear. The Naval Postgraduate School retains control through the use of a specified reserve. The Supervisor of Shipbuilding retains control by maintaining centralized control over most of the operating budget. The Naval Air Station retains control by informing department heads that operating targets are subject to adjustment throughout the fiscal year as circumstances warrant and that expenditures authorized for late in the fiscal year may have to be deferred in the event that contingencies arise.

4. Significance of the Differences

The significance of the differences that were discussed above is that they appear to have no impact on the manner in which the comptrollers of the three commands approach the task of budget execution. All three comptrollers stressed the need for proper planning prior to the start of the fiscal year. Inherent in the planning process is the decision not to consider possible events because the probability of their occurrence is small and the required planning effort would exceed the effort required to resolve the situation during the fiscal year in the event that it should occur. Detailed monitoring of financial reports is a continuous procedure at all three commands which facilitates early identification of deviations from anticipated obligation rates. All three commands involve department heads in the budget planning and execution process; the Naval Postgraduate School and the Naval Air Station accomplish this through their budget committees while the Supervisor of Shipbuilding solicits direct communication to the commanding officer.

V. IMPLEMENTATION

Implementation of the budget execution exercise is predicated on several considerations affecting both the student, the instructor, and the course content. Each of these will be discussed in this section. Also a description of the budget execution exercise is included.

A. COURSE CONTENT

The course content was examined in order to determine an appropriate time in which to include the new exercise module and also to determine what material, if any, could be deleted from the lecture portion of the course in order to allot two class periods to the new module.

1. Schedule

Since it was desired to make the exercise as realistic as possible, the chronology of real world budget events dictates that the execution module be scheduled after the formulation module. Both instructors concurred that, because of the need to present appropriate background material in class, the formulation module could not begin until the twelfth class period. With three class periods allotted to the formulation module, the earliest that the execution module could begin is class period fifteen if the two modules were to be run consecutively with no break in between.

With two additional class periods allotted to the execution module, a total of five class periods (or two and one-half weeks) would elapse with virtually no student-instructor contact. This was considered to be too long a period for class continuity. Also, the instructors considered it necessary to present information on the Reports Management System (RMS) prior to the execution module. RMS information is not necessary in the formulation phase but it is germane to the execution phase. With class periods fifteen and sixteen occurring immediately prior to the Thanksgiving holiday in the Fall 1985 academic quarter, it was decided to run the formulation module in periods twelve through fourteen, use period fifteen to present RMS material, and use period sixteen for the second examination. By so doing, the additional material could be presented as desired and there would not be a protracted period where there was no student-instructor contact. Initial information on the execution module would be distributed at the end of the second examination, just prior to the holiday, with the bulk of the required work occurring the following week. Class periods seventeen and eighteen would be allotted to the execution module during that week.

2. Deletion of Course Material

Because the course schedule contained no slack periods, it was necessary, in order to allot two class periods to the execution module, to either delete material from the course

or include some of the course material in the execution module. Based upon personal recollections of the course topics covered in the Spring 1985 quarter, the author recommended to the instructors that two topics; Financial Management in the Army, and Financial Management in the Marine Corps, be deleted. The material covered in these two topics served only to highlight the fact that all services are subject to the Department of Defense Planning, Programming, and Budgeting system, and that the differences among the procedures used by the four services are minor. Two class periods had been allotted to each topic, and the instructors agreed that the material could be presented in much less time.

The recommendation to delete the two topics was presented to a total of eight Army, Navy, Marine Corps, and Coast Guard officers who took MN-4154 during the Spring 1985 quarter. All of them concurred that the two topics, while important, could be either deleted or significantly abbreviated without having an impact on the value of the course. Deletion of the two topics provides the necessary two class periods for the execution module.

B. STUDENT AND INSTRUCTOR NEEDS

Student and instructor needs are very similar. There are two primary considerations. First, there should be a minimum of new material to be learned in order to participate in the execution module. Second, the execution module should

be scheduled in such a way that students have an appropriate amount of time to analyze problems and prepare responses, and instructors have adequate time to evaluate student work.

To minimize the amount of new material that students and instructors must learn, it was decided to build the execution module using the same format and rules that were used in the original thesis. In addition to conserving time, it was thought that this approach would also minimize confusion.

To ensure that students and instructors have the appropriate amount of time to complete the module, a schedule was developed which provides for a minimum of one full work day and two evenings for students to prepare responses to problems, and a minimum of one full work day and one evening to evaluate student input. The schedule for the Fall 1985 MN-4154 course is contained in Appendix B.

C. THE BUDGET EXECUTION EXERCISE

1. Development

The course content and the needs of students and instructors were used to determine the scope of the budget execution exercise. The content of the exercise was obtained by adapting the results of the research to the simulated situation. It was not intended that all of the research findings be incorporated; rather, the research was intended to provide a pool of actual situations from which the author could draw in developing a plausible, meaningful exercise.

The research also provided insight into the techniques used by comptrollers in dealing with problems. These techniques were used in developing the proposed solutions contained in the instructor's guide.

2. Scope

The logical scope of the exercise was determined to be one fiscal year. A complete fiscal year for execution purposes is a logical follow-on to the budget development exercise and embraces sufficient time to permit inclusion of various types of problems encountered in the real world.

3. Content

The exercise is divided into three parts; background information, assignments, and instructor's guide.

a. Background Information

The background information serves two purposes. First, it provides generic information concerning budget execution techniques and methods that field comptrollers use to handle problems. This information was developed as part of the research process. Second, it provides the scenario in which the exercise will be conducted and gives the student basic information about the hypothetical command that will be used throughout the assignments. The background information was obtained from the budget development exercise and adapted to provide information that would be needed in the execution exercise. In order to minimize confusion and

to keep the amount of new material to a minimum, the scenario follows the budget development exercise as closely as possible. The background information is contained in Appendix C.

b. Assignments

The execution phase was broken down into three distinct elements; problems encountered when starting a new fiscal year, problems encountered during the fiscal year, and problems experienced near the end of the fiscal year. One assignment is dedicated to each type of problem. All three assignments are contained in Appendix D.

The first assignment provides the student with an annual planning figure that is less than the amount anticipated after the PPBS reclama process. The student is required to identify the problem to various sub-activity groups in the commands budget and to propose actions based on information in the assignment that will result in an initial spending plan that balances with the funds assigned.

The second assignment assigns problems normally encountered in the course of the fiscal year and requires the student to develop and justify a request for additional funds based on information contained in the game scenario. The mid-year review is used as the vehicle for requesting additional funds.

The third assignment presents problems that will result in the command ending the fiscal year in an over-obligated status unless positive action is taken. The student

is required to use information in the game scenario to recommend actions which will permit the command to end the fiscal year neither over-obligated nor under-obligated and, at the same time, permit the command to accomplish its mission.

c. Instructor's Guide

The instructor's guide is designed to provide the instructor with the information necessary to monitor the administration of the exercise. Recommended procedures are provided. The objective of each assignment is explained. Proposed solutions and suggested grading criteria are also provided. The instructor's guide was developed separately and provided directly to the thesis advisors and the MN-4154 course instructors.

APPENDIX A

RESEARCH QUESTIONS

- A. GENERAL COMMAND INFORMATION.
 1. What is the mission of the command?
 2. How many tenant activities do you support?
 3. How many Inter/intra-service support agreements do you have with other activities and what is the dollar value of each? Are they for your support, or for you to support another command?
 4. How large is the command? Number of military? Number of civilians?
 5. How large is the command in relation to the local economy? Is there a ready supply of potential civilian workers in the area? What would be the economic and political implications of a RIF?
 6. From whom do you receive funding?
 7. Do you have a union contract? If so, how does that affect your ability to make changes to policies in the personnel area that might be necessary because of changes in funding?
 8. Do you, as comptroller, have the duties and responsibilities normally assigned to a comptroller in

accordance with Volume One of the Navy Comptroller Manual?
If not, what is the nature of the deviation and what impact
does it have on the way in which you resolve budget
execution problems?

INITIAL ALLOCATION OF APF

1. In the past five years, how has your annual planning
figure differed from what you requested in your budget
request? If records are not available for five years or
personnel changes have occurred, obtain information for as
many of the past years as possible.

- (a) Timing differences (apportionment)
- (b) Dollar value differences
- (c) Program differences

2. Does your command have any written guidance pertaining
to the manner in which the command will resolve instances
wherein authorized APF amounts are considered insufficient
for mission requirements? If yes, obtain copy for study.

3. Do you maintain a list of unfunded requirements? How
large is the list in comparison to the total APF? What is
the oldest item on the list? How frequently does the list
turn over?

4. Have you ever been able to fund any of your unfunded
requirements directly upon receipt of your annual planning

figure? (Have you received more in the APF than you requested, thereby allowing you to take care of unfunded requirements)

5. Do you have a written procedure to prepare budgets and to allocate funds when received?

6. If your annual planning figure is less than the amount requested, does the claimant give you instructions on where to make adjustments (other than the adjustments made obvious by the category in which the differences occur.)

7. If you have no written procedure to adjust the budget based on differences in the annual planning figure, what procedure do you use? (Does every department take a 10% cut, does the loudest screamer win, do you have programs set aside ahead of time for cancellation in such an event, etc.) What have been the results of that procedure over the past five years?

EXTERNALLY IMPOSED BUDGET ADJUSTMENTS.

1. How often have you received direction from an echelon senior to the command that grants your budget authority which required you to take action for which you have not been funded? What is the magnitude and nature of these occurrences? How often have you received such guidance from your major claimant without receiving concurrent funding?

Was funding subsequently received, or did you have to fund the requirement using existing resources?

2. How frequently have you experienced changes in circumstances, over which the command had no control, which had a major impact on your approved APF? Fluctuation in oil prices, aviation fuel prices, general schedule wage rates, OSHA requirements, significant numbers of job reclassifications based on DPM reviews, actions of local governments? How have you made the necessary adjustments?
3. Have you suffered any natural disasters (fire, flooding, windstorm, excessive snowfall) which have necessitated budget adjustments? How have such adjustments been made?
4. Do you, as comptroller, feel compelled to seek legal counsel at any time regarding the potential impact on the command's mission of a funding adjustment that you are considering making.
5. Do you account for any revolving funds? If so, do the funds maintain themselves through the normal turnover of stock or addition of fenced funds, or are you required to make up deficits by economizing elsewhere?

INTERNALLY GENERATED BUDGET ADJUSTMENTS

1. How often do you encounter department heads who seem to "just run out of money" without good explanation? What

course of action do you follow in those cases.

2. Do you have procedures in place to monitor the day-to-day expenditure of funds to ensure that the spending rate is in accordance with the budget plan?

3. Does the commanding officer keep a reserve? If so, how much is it and for what purposes has it been used in the past five years.

4. How often are voluntary new programs initiated within the command that require a reallocation of the current years funds? How has that reallocation been accomplished?

5. Do you have anything in your repertoire of problem resolution procedures that you have not yet had the opportunity to use because the situation has never materialized? If yes, what is the procedure, in what circumstances will you use it, and why do you think that it will be successful?

APPENDIX B

BUDGET EXECUTION EXERCISE SCHEDULE

The following schedule was developed for the Fall quarter budget execution exercise.

<u>Day</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
Wed	27	1500	Annual Planning figure available from instructor.
Mon	2	1600	Revised budgets with justification due to instructor
Tue	3	1600	Budget execution problems available from instructor
Thu	5	0800	Budget execution problems and mid-year review due to instructor
Fri	6	0800	Year end close out problems available from instructor
Mon	9	0800	Year end close out due to instructor

This schedule gives the students a minimum of one full work day plus two evenings to prepare responses. It also gives the instructor one full work day plus one evening to evaluate responses.

The schedule was established in such a way that all the work can be done during the week in which class time is allotted for the exercise, and at the same time provide as much flexibility as possible for students over the Thanksgiving weekend. Although Friday 29 Nov is a normal workday, it was decided not to make any assignment due that day in order to allow students to take advantage of the long weekend if the remainder of their schedule permits them to do so.

The time for the first event coincides with the end of exam II on 27 Nov. Materials for both sections can be made available as soon as the second section finishes the exam.

APPENDIX C

BUDGET EXECUTION EXERCISE

ORIENTATION

This exercise has been developed to familiarize the student with the procedures used by field level activities to obligate appropriated funds provided by higher authority. A hypothetical command, the Naval Technical Training School (NTTS), is used as the vehicle for the exercise.

Background information is provided to acquaint the student with procedures that were found to be in current use at training commands, Navy industrial activities, and Naval Air Stations. A scenario is also provided for the Naval Technical Training School.

The exercise is designed to highlight the fact that changes in circumstances frequently mandate changes from previously approved budgets, no matter how carefully those budgets may have been prepared; and to provide practical experience in developing solutions that will enable the command to accomplish its mission in the face of changed circumstances.

One complete budget execution cycle is used for the exercise, starting with receipt of continuing resolution authority at the start of the fiscal year, then continuing

through receipt of the annual planning figure, routine problem resolution requirements, mid-year review, and end of year close out.

The student will be required to do several things. First, prepare a recommended spending plan based on the assigned annual planning figure. Second, prepare a mid-year review request in response to emergent requirements that occur during the fiscal year. Third, respond to end of year close out problems in such a way that funds are neither over-obligated nor under-obligated at the end of the fiscal year.

FIELD LEVEL BUDGET EXECUTION

DUTIES AND RESPONSIBILITIES.

The duties of the Navy comptroller are specified in the Navy Comptroller Manual (NCM), Volume One. While NCM does not require that there be a specific comptroller organization at every navy command, it does require that the following five functions be accomplished either by or for every command: (1) establish an integrated system for financial management, (2) review requirements, estimate costs, and prepare budgets which will result in the most economical and efficient performance of the command's mission, (3) perform accounting and reporting functions, (4)

analyze program performance, prepare statistical calculations, and present information to line managers and the commanding officer in such form as will permit them to initiate prompt action when variances from the approved budget are detected, (5) perform internal review functions designed to ensure that the command is operating as effectively and efficiently as possible and is in compliance with laws and regulations pertaining to financial management. The comptroller's responsibility is advisory in nature. Command policy is solely within the purview of the commanding officer, and management of specific programs within the command is the responsibility of the line manager to whom the commanding officer has delegated authority. The comptroller's role is to review data and provide information and recommendations to the line managers so that they may accomplish the command's mission within the limits of available financial resources.

In addition to the normal requirements associated with professional integrity, there are legal requirements and legal penalties that are inherent in the budget execution process. Title 31, U.S. Code, sections 1341 and 1517 provide for legal penalties for accountable individuals who either expend funds on items for which no appropriation has been enacted, or expend funds in excess of the amount appropriated. Not all commands are subject to the provisions of these laws; it depends on the manner in which

the funds are assigned. Depending upon the echelon of the command, an expense limitation, an expense operating budget, or an operating target may be assigned by the sponsor. All three types of funds assignment grant the authority to obligate appropriated funds, but only the expense limitation and the expense operating budget carry Title 31 responsibility. An individual who holds either an expense operating budget or an expense limitation may be criminally prosecuted for violation; a violation in the case of an individual who has been assigned an operating target is considered to be only an administrative violation and no criminal prosecution is prescribed. Because funds are assigned to the commanding officer, it is the commanding officer who is subject to the penalty.

FIELD LEVEL PROCEDURES

Specific written guidance is virtually non-existent in the area of appropriate procedures that can be employed by field comptrollers to ensure that assigned funds are neither over obligated nor under obligated at the end of the fiscal year. The emphasis is on Planning, Programming, and Budgeting. With the introduction of the Planning, Programming, and Budgeting System (PPBS) in the Department of Defense, it was hoped that it would be possible to plan the fiscal year in advance, then execute the plan. Written

guidance abounds for PPBS procedures, but field comptrollers are on their own to develop local procedures to ensure effective response to emergent situations which require departure from the approved budgets.

The field comptrollers who were contacted incident to the development of this exercise acknowledged that planning is probably the most effective weapon in their arsenal of budget execution procedures. However, they attempt to establish a trade-off between spending too much time planning for contingencies that never materialize, and the agony that they encounter as the result of failure to plan for contingencies that do materialize and must be dealt with "at 1530 hours on Christmas eve when half the staff is on leave." Although you can't plan everything, a proper amount of planning can permit day to day operations to operate smoothly enough so that you have time to devote to the emergencies. The key to success in that area is in establishing the proper trade-off.

Comptroller personnel generally recommend the use of some type of budget steering committee in both the planning and the execution phases. The consensus is that people who have been involved in the planning of something are more likely to support its execution than are people who were not involved. The use of the steering committee to review the approved budget on a monthly basis and to resolve significant problems that emerge after the start of the

fiscal year also can be of benefit to the comptroller by removing from him the burden of being the only "bad guy" responsible for cutting other department budgets. As in the planning process, budget adjustments that are the result of department head effort are more likely to be supported than budget cuts that are recommended by the comptroller acting alone.

Maintaining a current unfunded requirements list is another procedure that has wide acceptance as a budget execution technique. The unfunded requirements list does two things. First, it enables the command to go on record as having necessary items for which funding has not been identified. Second, it enables the command to avoid sudden decisions regarding the disposition of funds in the event that an unexpected augment is received. Many sponsors require that subordinate commands submit unfunded requirements lists every quarter. The sponsors then use these requirements, along with requests received during the mid-year review, to augment their subordinates' funding authorizations.

Close monitoring of accounting records is important to ensure their accuracy. Regardless of the competence of local comptroller personnel, errors can creep into the accounts from external sources. For example, supply activities outside the command may process requisitions incorrectly resulting in the receipt of erroneous charges.

Prompt identification of these errors facilitates their correction and can preclude an actual loss of funds. Duplicate charges, entering a document twice into the accounting system, also occur. Failure to isolate these duplicates will result in a loss of funds.

The status of local optars should be reviewed at least monthly; more frequently near the end of the fiscal year. This is usually accomplished by a local funds status report prepared by the comptroller's office. It permits the comptroller to monitor the various cost centers to ensure that they are obligating funds in a manner consistent with the spending plan. Prompt identification of deviations can preclude over-obligation problems at the end of the year and can also identify excess funds for timely redistribution to cost centers with valid needs.

The foregoing techniques come under the heading of "good housekeeping," they enable the command to know at all times where it is and where it wants to go financially. Unless you have a good plan and a system to monitor the plan, you may not be able to deal with problems as they arise. Indeed, you may not even know that you have a problem until it is too late to do anything about it.

Even with good control and monitoring procedures, there will be times when requirements exceed resources. It is in these situations that the effective comptroller must demonstrate ability to develop quickly appropriate

recommendations for resolution of the problem. No matter how simple or how complex the budget is, there are only three options when requirements exceed resources: change the requirement, change the resources, or find some way to operate more efficiently so that you can do more with less.

Changing requirements is frequently recommended by field comptrollers. Although mission tasking is not subject to reduction or cancellation at the local level, non-mission requirements may be deleted or reduced with little immediate impact, and the funds applied to other purposes. Reduction in funding of recreation services, reduced emphasis on grounds-keeping, delaying the repainting of buildings, and enforced delays in filling vacant billets are examples of local actions that can make money available for higher priority items. If the amount needed exceeds the command's authority to reprogram, such authority may be requested from the sponsor. This can be a two-edged sword. The sponsor may fail to grant authority to apply funds to the purpose requested. At the same time, the sponsor may withdraw the amount that is proposed as a source simply because it was identified as not being needed for the original purpose.

Changing the resources available is simply a request to the sponsor for additional funds. Because most sponsors require that unfunded requirements be submitted routinely, additional requests are usually only appropriate when significant changes in the operating environment occur, or

in situations where the command experiences an event such as a natural disaster that could not be anticipated. One such situation would be the opportunity to enter into a three year contract for essential services to replace an existing one year contract. The new contract may require a heavy investment this fiscal year with offsetting savings in subsequent fiscal years. In that case it would be to the sponsor's advantage to provide additional funds this year.

Efforts to operate more efficiently can provide some surprising results. The standard answer to a request for increased efficiency is, "We're already operating as efficiently as we can." But perhaps we're not... Even though the public works officer embarked on a successful energy conservation campaign last winter, there has been a lot of water over the dam since. The weather stripping may have been removed from the windows last spring, new people have come on board and need to be reminded about turning off lights and lowering thermostats, and other problems have overshadowed the need to conserve energy. Efficiency reviews can be an awful nuisance, particularly since they must be conducted by the line managers if they are to be successful; but failure to continually emphasize efficiency can be embarrassing to the command if the command requests additional funds and the sponsor replies by denying the request and identifying inefficiencies! Whether or not additional funds are requested, sponsors frequently compare

the expenditures of similar subordinate commands and request explanation in cases where one command deviates from the others.

Maintaining an open, honest, and current relationship with the sponsor's comptroller has been cited as an invaluable aid in obtaining funding relief when necessary. By keeping a good working relationship and keeping the sponsor's comptroller apprised of the command's status, there will be fewer unwelcome surprises. One element which will significantly enhance the field comptroller's credibility is the prompt reporting of funds which become available at the local level for redistribution to other commands.

Successful comptrollers appear to have no pre-planned procedures for dealing with emergencies. Things that can be planned, are planned, but the real emergencies must be handled when they occur and in the context of the situation in which they occur. Because circumstances can change so rapidly, emergencies generally defy any meaningful attempt to plan for them.

NTTS BACKGROUND

NAVAL TECHNICAL TRAINING SCHOOL (NTTS) MISSION

The budget development exercise provides the following mission statement which is used in its original form: "The

mission of the NTTS is to conduct and direct the advanced education of service members and to provide such other technical and professional instruction as may be prescribed to meet the needs of the naval service. In support of that, the school is responsible for fostering and encouraging a program of research in order to sustain the academic excellence of the staff and students alike." [Ref. 4: p. 87]

ORGANIZATIONAL STRUCTURE

The following command organizational structure has also been included from the budget development exercise: "The one-star flag officer of the line who commands NTTS reports directly to the Chief of Naval Operations (CNO). The school's Commander uses the title 'Superintendent.' The CNO's Director of Field Support Activities (FSA), Mr. M. Dale Jenson, coordinates all financial interaction between NTTS and CNO's office. This interaction includes PPBS submissions, mid-year review requests, promulgation of financial guidance, funding augmentation requests, and funding authorization.

The NTTS Organization Manual requires that the academic functions of the school always be considered the primary function. To ensure that this requirement is met, a civilian Academic Dean has been placed second in the organizational command of the school. Responsible for the

overall academic administration of the School, she has authority to act for the Superintendent, in his absence, in all but purely military matters. An organizational chart is included as Attachment (A)." [Ref. 4 p. 87]

The remainder of the NTTS scenario relies heavily on the scenario presented in the budget development exercise; there are differences, however, and there is additional information provided. The school has established a Training Resources Board (TRB). This board oversees the budgeting and financial allocation process. The board is also convened in cases where emergent requirements mandate a deviation from the approved budget. The Academic Dean, Dr. Ruth Andersen, chairs the board. The Superintendent has final approval on all the board's actions. The incumbent Superintendent, Commodore Johnson, takes an active interest in the board's proceedings.

The TRB membership is:

Academic Dean (Chair)

Director of Programs (Vice-Chair)

Director of Operations

Director of Information Sciences

Director of Science and Engineering

Comptroller (Ex-officio)

Civilian Personnel Director (Ex-officio)

The four directors are considered department heads.

They represent the interests of all those functions within

their sponsorship. The board meets at the discretion of the Academic Dean.

NTTS employs 738 full time permanent civilian employees who are assigned to various functions. Attachment (B) shows the assignments by grade and function.

ALLOCATION OF THE ANNUAL PLANNING FIGURE

The Annual Planning Figure (APF) is the total obligational authority assigned to the school. FSA issues the APF in the form of an expense limitation as soon after the start of the fiscal year as possible, some years this occurs prior to enactment of the budget by Congress. Because the school is assigned an expense limitation rather than an operating target, the Superintendent is subject to the provisions of Title 31 USC, sections 1517 and 1341. The Annual Planning Figure is only a planning estimate and is subject to be changed by FSA. At the same time the APF is assigned, CNO requests the school to submit a proposed annual spending plan and a request for quarterly apportionment of the APF. FSA also promulgates financial guidance which gives field activities authority to reprogram funds within specified limits. An example of the assignment of the APF and the related guidance is contained in attachment (C). The actual figures you will use in the exercise will be provided as part of assignment 1. Although

the APF and related guidance are promulgated by letter, frequently the APF alone is promulgated by message with the letter guidance following shortly thereafter. If the assigned APF is different from the amount submitted in response to the budget call, the TRB meets to develop a recommendation regarding the areas in which cuts are to be taken. This recommendation is then forwarded to the Superintendent for approval.

Although NTTS does not have a formal written instruction addressing procedures for the local resolution of the difference between the assigned APF and the amount requested in response to the budget call, it has been customary in the past for Dean Anderson to convene the TRB and request that the comptroller be prepared to brief the board on the nature of the cuts, and to propose some alternatives for the board to consider. The same procedure is used during the year when adjustments become necessary.

LOCAL CONTROL PROCEDURES

FSA requires that revised spending plans be submitted quarterly in NAVCOMPT 2179 format (attachment (D)). To ensure control at the local level, the comptroller revises the plan monthly based on adjustments received from FSA and the results of TRB meetings. The revision shows the new totals and the reason for deviation from the previous plan.

The plan is not a record of how much has been spent or the remaining balance; rather, it is a statement of the total amount authorized for expenditure for the entire fiscal year.

To show the actual financial activity of the school, the comptroller prepares a monthly funds status report. This report shows the amount authorized for each cost center, the amount obligated to date and the remaining balance. The comptroller uses this report to analyze deviations from the spending plan. The report is also distributed to all departments and cost centers with a request that it be verified against the department's memorandum records. This provides a cross-check in the event that data has been entered erroneously in the official accounting records. Because the spending plan is maintained in NAVCOMPT 2179 format which breaks the budget out by AG/SAG and expense element, and the monthly funds status report is designed to show obligations and authorizations broken out by cost center, it is not possible to translate directly from one to the other. This analysis is done within the comptroller department.

To ensure accounting integrity, NTTS procedures require that all documents used to obligate funds be submitted to the comptroller department before they leave the command. Travel orders which cite NTTS funds must be signed personally by the comptroller or deputy comptroller.

Requisitions for material to be procured through the supply system are also routed through the comptroller where the obligation copies are removed and entered into the accounting system. The school supply officer will not sign an open purchase document or contract until it has been initialled by the comptroller or budget officer. Controls are considered to be effective and NTTS has not had any significant problems with failure to obligate funds.

COMMAND SITUATION

Commodore Johnson took command early in 1984. He considered the fiscal 1984 budget to be inadequate for the mission of the school. As a result of significant effort during the first year of Commodore Johnson's command, a budget was submitted in May 1985 which would permit NTTS to regain some of the ground that had been lost in previous years. Throughout the reclama process the NTTS budget was sustained with only minor mark down. The Superintendent was pleased with the budget that was tentatively approved by FSA after the reclama process had been completed.

The Superintendent was committed to providing quality education to the students and to enhancing the school's strong reputation for maintaining both academic and research excellence. The Superintendent identified two specific goals. First, he wanted to reduce the student/staff ratio

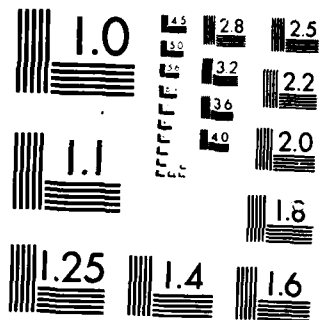
BUDGET EXECUTION EXERCISE FOR USE IN THE FINANCIAL
MANAGEMENT IN THE ARME. (U) NAVAL POSTGRADUATE SCHOOL
MONTEREY CA J F OIKLE DEC 85

UNCLASSIFIED

F/G 5/1

NL

[illegible]



MICROCOPY RESOLUTION TEST CHART
 NATIONAL BUREAU OF STANDARDS-1963-A

by hiring additional professors. During the first year of his command tour, he had accomplished this, and he considered that NTTS was ready to enter FY-86 staffed at what he considered to be an appropriate level. His second goal was upgrading academic facilities, specifically in the area of laboratory equipment, classroom facilities, and computer equipment. In support of this goal, minor plant property such as test equipment for the physics lab and other similar items for use in other academic departments was included in the budget for \$100K. The school also had a guest lecture program which was funded through the Mission Operations Sub-Activity Group (MBMZ). The fiscal 1986 lecture program is in the budget for \$100K.

Commodore Johnson also recognized the continuing need to apply resources to the maintenance and improvement of the school grounds, buildings, and equipment. During development of the fiscal 1986 budget several initiatives were emphasized. Improvements to lavatory facilities in seven buildings were budgeted for a total of \$80K, 50% labor and 50% material. Material costing \$500K for new elevators was to be procured. Four buildings were scheduled for exterior painting. The paint alone is in the budget for \$20K.

Enhancing the quality of life for both students and staff was also high on the Superintendent's list of priorities. Recognizing the relatively small size of

government quarters, he authorized unlimited storage of household goods at an estimated cost of \$100K annually.

COMMAND OPERATIONS

The school is virtually self-sufficient. Most base operations and academic endeavors are supported by the assigned civilian and military personnel. Contracting for some services is handled by the supply department. Most of the contracts require some "up front" money in the first quarter of each fiscal year.

The Public Works department provides fire protection, refuse collection service, operates the heating plant and electric distribution switchboards, and provides construction and maintenance service. Historically, the skilled and semi-skilled trades have been employed 75% for maintenance and 25% for new construction work. This 75/25 mix (in total labor dollars) is anticipated for fiscal 1986.

The school generates its own steam and buys electric power from Washington Power Company. Power Plant employees operate the electric distribution switchboards.

The Supply department provides procurement and contract services for all school requirements.

The Household Goods Office arranges the shipment, receipt, and storage of household goods for staff and students.

Motor Pool is responsible for the maintenance of all vehicles assigned to the school. The current vehicle inventory includes busses, sedans, and light trucks.

All electrical communication (voice and message) service is provided by the communications office.

There is an officers club and enlisted club. The school also has numerous other officially sponsored recreational functions available for military personnel.

The Educational Media office provides audio-visual aids support for students and staff.

Because the school is not required to respond to many emergent situations that are labor-intensive, overtime needs are minimal. There are usually some unavoidable overtime requirements and so 100K per year is assigned to base administration and is reprogrammed as required during the year. Overtime requests are approved by department heads and then forwarded to the comptroller's office.

THE START OF THE FISCAL YEAR.

Just as you are getting ready to leave the office on the evening of 29 September, the phone rings. Dale Jenson, the CNO's Director of Field Support Activities is on the other end. "Happy New Year," says Mr. Jenson, "We've just heard from SECNAV's office that Congress is debating a continuing resolution. You can plan on business as usual on 1 October,

but I'm not sure when you'll get it in writing. There'll be an ALNAV out just as soon as the word comes down from DOD."

At 0300 on 30 September, with twenty-one hours to spare, Congress passes the resolution. By the time formal documentation works its way through the bureaucracy and down the chain of command, it is after the end of normal working hours on 30 September, but during the day, another phone call from Mr. Jenson gives you verbal authority to continue operations. The ALNAV, attachment (E), is in your morning message traffic on 1 October, and later that afternoon you receive attachment (F) from CNO.

You are relieved to know that business can continue, but are concerned about the effect that the new fiscal year's APF will have on the budget. Attachment (D) is your 2179 that had been approved by FSA after the reclama process was complete.

NTTS ORGANIZATION CHART

SUPERINTENDENT

ACADEMIC DEAN

COMPTROLLER

DIRECTOR OF PROGRAMS

CIVILIAN PERSONNEL OFFICER

DIRECTOR OF RESEARCH

SAFETY OFFICER

DIRECTOR OF PLANNING

HUMAN RESOURCES OFFICER

DIRECTOR OF ADMIN:

EEO OFFICER

A. LIBRARY

B. COMPUTER CENTER

DIRECTOR OF
OPERATIONS

DIRECTOR OF
INFORMATION
SCIENCES

DIRECTOR OF
SCIENCE AND
ENGINEERING

ADMINISTRATION
OFFICER

COMPUTER SCIENCE
DEPARTMENT

PHYSICS
DEPARTMENT

PUBLIC WORKS
OFFICER

MATHEMATICS
DEPARTMENT

ELECTRICAL
ENGINEERING
DEPARTMENT

SECURITY
OFFICER

ADMINISTRATIVE
SCIENCES
DEPARTMENT

METEOROLOGY
DEPARTMENT

"O" CLUB
MANAGER

OPERATIONS
RESEARCH

AERONAUTICS
DEPARTMENT

NAVY EXCHANGE
OFFICER

OCEANOGRAPHY
DEPARTMENT

STAFF JAG

MECHANICAL
ENGINEERING
DEPARTMENT

PUBLIC AFFAIRS
OFFICER

ATTACHMENT (A)

The NTTS Organization chart was taken from the budget development exercise [Ref. 4: p. 101].

NTTS PERSONNEL ASSIGNMENTS AS OF 1 OCT 1985

	SKILLED TRADES	BASE SERVICES	COMPT- ROLLER	ACADEMIC	EDUC. MEDIA
GS-1	0	0	0	0	0
GS-2	0	0	0	0	2
GS-3	2	10	3	53	4
GS-4	0	0	2	61	1
GS-5	14	6	6	73	3
GS-6	15	0	0	22	4
GS-7	2	0	2	82	0
GS-8	0	0	0	0	0
GS-9	0	0	4	66	0
GS-10	0	0	0	0	0
GS-11	0	3	3	38	0
GS-12	0	0	0	3	0
GS-13	0	0	0	4	0
GS-14	0	0	0	2	0
GS-15	0	0	0	2	0
TOTAL	33	19	20	406	14

	BASE ADMIN	POWER PLANT	CIVILERS OFFICE	SUPPLY	BASE COMMUNI- CATIONS
GS-1	1	0	0	0	0
GS-2	0	0	1	2	0
GS-3	22	2	3	6	0
GS-4	11	0	0	2	0
GS-5	27	0	2	6	1
GS-6	0	5	0	4	5
GS-7	9	2	2	3	0
GS-8	0	0	0	0	0
GS-9	2	1	1	2	0
GS-10	0	0	0	0	0
GS-11	6	0	2	2	0
GS-12	0	0	0	0	0
GS-13	0	0	0	0	0
GS-14	0	0	0	0	0
GS-15	0	0	0	0	0
TOTAL	78	10	11	27	6

ATTACHMENT (B)

	MOTOR POOL	SEMI- SKILLED TRADES	STEAM PLANT	FIRE STATION	SANI- TATION
GS-1	0	0	0	0	0
GS-2	0	0	0	0	0
GS-3	5	3	4	2	2
GS-4	0	0	0	0	0
GS-5	4	11	0	5	0
GS-6	0	18	8	8	7
GS-7	0	1	1	0	1
GS-8	0	0	0	0	0
GS-9	0	1	0	0	0
GS-10	1	0	0	0	0
GS-11	0	0	0	1	0
GS-12	0	0	0	0	0
GS-13	0	0	0	0	0
GS-14	0	0	0	0	0
GS-15	0	0	0	0	0
TOTAL	10	34	13	16	10

	MISC PERSONNEL SUPPORT	HOUSE- HOLD GOODS	MORALE WELFARE RECREATION	COMMAND TOTAL
GS-1	0	0	0	1
GS-2	2	0	0	7
GS-3	5	4	3	133
GS-4	0	0	2	79
GS-5	0	2	2	162
GS-6	2	6	0	104
GS-7	0	0	0	105
GS-8	0	1	0	1
GS-9	0	0	0	77
GS-10	0	0	0	1
GS-11	1	0	1	57
GS-12	0	0	0	3
GS-13	0	0	0	4
GS-14	0	0	0	2
GS-15	0	0	0	2
TOTAL	10	13	8	738

ATTACHMENT (B)

DEPARTMENT OF THE NAVY
Chief of Naval Operations
Washington, D.C.

18 October 1985

From: Chief of Naval Operations
To: Superintendent, Naval Technical Training Center
Subj: FY-86 Financial Management Guidance

1. The guidance herein is applicable during the entire fiscal year unless modified or cancelled by CNO. This letter may be referred to in subsequent correspondence and therefore should be retained for reference. On the basis of the FY-86 commitment/budget submission, the following Annual Planning Figure (APF) and fences/targets for FY-86 are provided.

FY-86 APF	\$XX,000K
MRF Target	X,000K
TAD Travel Ceiling	X00K
Civilian End Strength:	
Permanent	X,X00K
Temporary	none

2. Use the above planning figures and provide requests for FY-86 Quarterly Allocation to Field Support Activity (FSA) not later than 15 October 1985. The following additional information is required not later than 1 November 1985:

- (a) FY-86 Initial updated spending plan (NAVCOMPT 2179)
- (b) FY-86 Unfunded requirements.

3. The initial spending plan should contain adjustments from the spending plan submitted in response to the previous budget call. The adjustments should reflect the most effective application of funds toward meeting known/projected requirements. Further, the plan must show that fixed costs - labor, utilities, essential contracts - are fully funded. No civilian pay raise is included in the APF. Information available to date indicates that a graded pay raise of 3.5% will be effective 1 January 1986. Estimated pay raises should not be included in the Initial

Spending Plan. Funding for temporary employees must be accomplished by station reprogramming actions within the assigned APF.

4. Activities are expected to execute budgeted programs as submitted in initial spending plans. subsequent reprogramming actions exceeding \$50K from one SAG to another must be approved in writing by FSA prior to execution. Reprogramming actions of less than \$50K from one SAG to another may be approved at the local level; however, explanation of all actions must be provided with the next spending plan update. Reprogramming actions are not limited in number; however the total dollar value of reprogramming actions from one SAG or to one SAG will not exceed \$50K per fiscal quarter unless approved in writing by FSA prior to execution.

5. Activities are required to maintain an obligation rate consistent with the rate submitted in the spending plan. Excessive reprogramming actions or failure to maintain a satisfactory obligation rate will result in withdrawal of funds for redistribution.

6. Unfunded requirements should be submitted with the initial and all subsequent spending plans. Only changes need be reported on subsequent plans. Emergent requirements may be submitted anytime.

M. Dale Jenson,
By direction

ATTACHMENT (C)

210/41117

THE

TOTAL DIRECT EXPENSES	
CHANGES IN UNDELIVERED ORDERS (+) OR (-)	
TOTAL DIRECT OPERATING BUDGET	

R 302238Z SEP 85
FM SECNAV WASHINGTON DC
TO ALNAV

BT

UNCLAS //NO7130//

ALNAV 3206/85

SUBJ: FY 1986 FINANCIAL GUIDANCE

1. THE CONGRESS HAS PASSED A CONTINUING RESOLUTION PENDING ENACTMENT OF THE FY 1986 DOD APPROPRIATION ACT AND THE FY 1986 MILITARY CONSTRUCTION APPROPRIATION ACT. THEREFORE, EFFECTIVE 1 OCTOBER 1985, OBLIGATION/EXPENDITURES OF FY 1986 FUNDS ARE AUTHORIZED AT FY 1985 RATE OR THE RATE PROVIDED FOR IN THE BUDGET ESTIMATES WHICHEVER IS LOWER AND UNDER THE CONDITIONS AND AUTHORITY INCLUDED IN THE FY 1985 APPROPRIATIONS AND MILITARY CONSTRUCTION ACT OR THOSE REQUESTED IN THE FY 86 PRESIDENTS BUDGET WHICHEVER IS MORE RESTRICTIVE IN ORDER TO ALLOW CONTINUATION OF NORMAL OPERATIONS UNTIL THE CONGRESS COMPLETES FORMAL ACTION ON THESE BILLS. THIS MESSAGE IS AUTHORITY TO OBLIGATE AND EXPEND FY 1986 FUNDS COMMENCING 1 OCTOBER 1985 UNDER THE CONTINUING RESOLUTION AUTHORITY. THE CONTINUING RESOLUTION AUTHORITY EXPIRES 30 OCTOBER.

2. THE SPECIFIC LEVELS OF FUNDING UNDER THE CONTINUING RESOLUTION WILL BE ESTABLISHED BY THE SECRETARY OF DEFENSE. NAVCOMPT WILL FROMULGATE THESE APPROVED RATES OF OBLIGATIONS, ALONG WITH CONDITIONS AND LIMITATIONS TO RESPONSIBLE OFFICES WHO IN TURN WILL SUBALLOCATE THESE FUNDS CONSISTENT WITH STANDARD PRACTICE.

BT

ATTACHMENT (E)

R 010300Z OCT 85
FM CNO WASHINGTON DC
TO NAVTECHTRASCOL SEATTLE WA
BT

UNCLAS //NO7300//

SUBJ: FIRST QUARTER FY86 FUNDING

A. SECNAV WASHINGTON DC 302238Z SEP 85

1. THIS MSG IS AUTHORITY TO CONTINUE NORMAL OPERATIONS IAW
REF A.

2. EXPECT FY 1986 ANNUAL PLANNING FIGURES WITH FIRST
QUARTER ALLOCATIONS AND LIMITATIONS TO BE PROMULGATED ON OR
BEFORE 15 OCTOBER.

BT

ATTACHMENT (F)

APPENDIX D

BUDGET EXECUTION EXERCISE

ASSIGNMENT 1

In the 21 October message traffic, you receive your APF (enclosure 1).

Your tentative budget (attachment (D) to the game scenario) was based on fewer than 738 civilian employees.

In preparation for the next TRB meeting, you must prepare an initial updated spending plan which reflects the personnel assignments as they appear in attachment (B) and the guidance contained in the APF message and CNO letter of 18 October (attachment (C)). The plan should use your tentative budget as a base.

In balancing your plan, you decide not to recommend any cuts in personnel-- at least not this early in the fiscal year. Whether or not you comply with the travel target is up to you to decide.

After reviewing the notes of recent TRB meetings, you consider the following courses of action:

1. Defer the contract for a major renovation project on one of the Research Buildings. The material for the project is in the budget for \$700K.

2. Defer the installation of new elevators in four buildings. The material for the project is in the budget for \$500K.

3. Reducing heat in buildings which would save \$200K during the year.

4. Reduce appropriated funds support for the officer's club by \$150K

5. Defer plans to purchase minor ecclesiastical items, new drapes, and new pew cushions for the chapel. \$50K.

6. Reduce Wide Area Telephone Service (WATS) lines by \$25K.

Pay rates are provided in enclosure (2). Enclosure (2) also contains some of the calculations for the personnel assignments listed in attachment (B) to the game scenario.

Your revised plan should be prepared and balanced in accordance with the instructions in this assignment and the game scenario which was provided earlier. Guidance concerning proper assignment of costs to Sub Activity Groups and Expense Elements may be found in the Navy Budget Manual and NAVCOMPT II.

A blank NAVCOMPT 2179 (enclosure 3) is provided. Your revised plan is due not later than _____. Submissions should be placed in the box outside LCDR Duke's office (Ingersol 215).

R 201432Z OCT 85
FM CNO WASHINGTON DC
TO NAVTECHTRASCOL SEATTLE WA
BT

UNCLAS //N07300//

SUBJ: FY86 OPERATION AND MAINTENANCE NAVY FUNDING
AUTHORIZATION

A. CNO LTR OF 18 OCT 85

1. INITIAL ANNUAL PLANNING FIGURES (APF) ARE FORWARDED
HERIN.

THESE NUMBERS SHOULD BE USED IN DEVELOPMENT AND SUBMISSION
OF

AN INITIAL UPDATED SPENDING PLAN.

2. FY-86 FUNDING IS PROVIDED AS FOLLOWS:

FY-86 APF 27,100K

MRP TARGET 2,000K

TRAVEL TARGET 400K

CIVILIAN LABOR TARGET 14,500K

3. ABOVE FIGURES SUPERCEDE AMOUNTS TENTATIVELY APPROVED IN
BUDGET SUBMISSION. TARGET FIGURES MAY NOT BE CONDUCTIVE TO
EFFECTIVE EXECUTION IN FY-85. BASED ON LOCAL ANALYSIS
SUBMIT

INITIAL UPDATED SPENDING PLAN IAW REF A TO REFLECT MOST
EFFECTIVE

APPLICATION OF FUNDS TOWARD MEETING KNOWN/PROJECTED
REQUIREMENTS.

MRP TARGET IS FLOOR-FENCED BY CONGRESS AND MAY NOT BE
REDUCED

BT

ENCLOSURE (1)

GRADE	ANNUAL PAY SCALE
-------	------------------------

GS-1	10582
GS-2	11521
GS-3	12986
GS-4	14578
GS-5	16310
GS-6	18180
GS-7	20200
GS-8	22372
GS-9	24712
GS-10	27211
GS-11	29897
GS-12	35835
GS-13	42611
GS-14	50354
GS-15	59230

Fringe benefits accrue at 18% of base salary. Leave accrues at the rate of 6 hours for every 80 hours worked.

Calculations for personnel listed in attachment (B)
(Employees X annual pay scale)

Base Admin	\$1,307,608.00
Power Plant	\$181,984.00
Civilian Personnel Office	\$208,005.00
Supply	\$470,512.00
Base Communications	\$107,210.00
Skilled Trades	\$567,412.00
Base Services	\$317,411.00
Comptroller	\$394,913.00
Educational Media	\$211,214.00
Motor Pool	\$157,381.00
Semi-skilled trades	\$590,520.00
Steam Plant	\$217,584.00
Fire Station	\$282,859.00
Sanitation	\$173,432.00
Misc. Personnel Support	\$154,229.00
Household Goods Office	\$216,016.00
Morale, Welfare, Recreation	\$130,631.00
Academic	\$8,088,701.00

ENCLOSURE (2)

BUDGET EXECUTION EXERCISE

ASSIGNMENT 2

The initial spending plan which you prepared was discussed by the TRB and, while they were not happy with the cuts that you proposed, they recommended approval to Commodore Johnson. The Superintendent knew that sponsors frequently do not provide full funding at the start of the fiscal year, and that funding relief is sometimes forthcoming later in the fiscal year so he approved the plan "just to get rolling." The Superintendent was committed to carrying out the projects that were deleted and instructed the comptroller to start to develop plans to shake some money loose in order to accomplish them later in the year. Your initial spending plan (enclosure (4)) was reviewed by FSA and was approved.

In addition to the spending plan, you submitted the request for quarterly apportionment in accordance with CNO letter of 18 October. Because of some "front end" costs and because you anticipated heavy utility costs during the first and second quarters, you requested an additional 500K in each of the first two quarters, with lower funding levels for the remaining two quarters. In addition to approving your annual spending plan, FSA acted on your apportionment request and sent you enclosure (5).

Because you asked for additional funds during the first quarter, the quarter was relatively uneventful. A few long lead time purchases were executed to get material that would be used later in the year on various projects, contracts were renewed as necessary, and you ended the quarter with the 99.5% obligation rate that FSA specified. It was not necessary to use any overtime during the first quarter.

On 2 January you received word that Congress has enacted a 3.5% general pay increase for all civilian employees, effective 1 January. Based on 738 civilian employees, you calculated your TOTAL fiscal 1986 personnel costs as follows:

Overtime:	104K	F3FL:	158K
MBMZ:	9,796K	F3FK:	187K
F3FF:	2,314K	F3FD:	553K
F3FG:	83.K	F3FC:	484K
F3FN:	130K	F4FB:	351K
F3V2:	256K	F3FA:	1,052K
F3FR:	575K		

That same week, the command was notified that, effective 1 April, the Marine Corps will no longer be authorized to provide sentries at the main gate. The Security Officer has discussed the loss of the Marine sentries with the Superintendent. The Superintendent has decided to maintain the current level of security on the gate which will necessitate hiring eight GS-5 guards. Civilian Personnel

Office has advised you that the guard personnel are available and can be brought on board on 1 April. You calculated the effect of the action as $(16,881 \times 50\% \times 8) + 18\% = \$80K$.

The public works officer has reported that the utility conservation program appears to be working. The hoped-for 100k saving was realized in the first quarter and he believes that the same amount can be saved during the second quarter.

December 31 is a popular time for retirement. The following people retired on 31 December: Household goods office lost one (out of 4) GS-3 clerk with 40 hours of accrued leave and one (out of 2) GS-6 inspector with 20 hours of accrued leave. One GS-6 telephone operator with 5 hours of accrued leave left the telephone office, leaving them with 4 operators. To top it all off, your GS-11 budget officer retired with 80 hours of accrued leave.

When you call Charlie Marks, the Civilian Personnel Director, he gives you the reassuring news that he can have your budget officer position filled by 1 February and also happens to mention that he expects all other vacant positions to be filled on that date, too. You subconsciously decide that twenty-two work days really isn't too long to do without a budget officer; after all, you are a darned good comptroller, and you've stood up to worse adversity!

You calculated the effect of the retirement on your budget as follows:

GS-3 clerk: 40 hours X (12986/2080) = \$250.
GS-6 inspector: 20 hours X (18180/2080) = \$175.
GS-6 operator: 5 hours X (18180/2080) = \$44.
GS-11 budget: 80 hours X (29897/2080) = \$1,150.

Total cost: \$1,619.

GS-3 clerk: 22 X (13441/260) + 18% = \$1,342.
GS-6 inspector: 22 X (18816/260) + 18% = \$1,880.
GS-6 operator: 22 X (18816/260) + 18% = \$1,880.
GS-11 budget: 22 X (30943/260) + 18% = \$3,089.

Total saving: \$8,191.

For planning purposes, you decide to net out the changes and round to the closest thousand as follows:

GS-3 clerk: 1K
GS-6 inspector: 2K
GS-6 operator: 2K
GS-11 budget: 2K

Due to the climate and shorter daylight hours during the winter, NTTS utility (steam 50%, electricity 50%) costs average out to 25% first quarter, 35% second quarter, 25% third quarter, 15% fourth quarter. This year has followed the pattern of previous years, except for the saving in first quarter that resulted from reducing heat. The state public utilities commission gave Washington Power Company authority for a 14% increase in electricity rates effective

1 January 1986.

You calculated the effect of the rate increase as follows:

Second quarter: $35\% \times (1366/2) \times 14\% = \$33K.$

Third quarter: $25\% \times (1366/2) \times 14\% = \$24K.$

Fourth quarter: $15\% \times (1366/2) \times 14\% = \$14K.$

Total cost = \$71K.

Based on the Superintendent's desire to recover funding that was lost when the Annual Planning Figure was assigned, and the events described in this assignment, prepare the mid year review input in accordance with the guidance given in enclosure (6).

Your mid year review request is due not later than . Leave your input in the box outside LCDR Duke's office (Ingersol 215).

Operations and Maintenance, Navy

EXPENSE ELEMENTS	FUNCTIONAL CATEGORY (in Thousands Dollars)										FISCAL YEAR 1986		DATE SUBMITTED 1 NOV 85		FISD PROGRAM		ACTIVITY/NAVC	
	HOM2 SYSTEM OPERATIONS		P3PP PERSONNEL TRAINING		P3PG PERSONNEL OPERATIONS		P3PN PERSONNEL MAINTENANCE		P3V2 PROPERTY OPERATIONS		P3R2 PROPERTY MAINTENANCE		P3R3 PROPERTY OPERATIONS		P3R4 PROPERTY MAINTENANCE		P3R5 PROPERTY OPERATIONS	
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R
MILITARY PERSONNEL																		
MILITARY PERSONNEL																		
MILITARY PERSONNEL																		
CIVILIAN PERSONNEL	9545		3354	810	127	249												
TRAVEL OF PERSONNEL	370		39	2														
TRANSPORTATION OF PERSONNEL	10		8															
UTILITIES AND WASTE	293		20	2														
COMMUNICATIONS	26																	
PURCHASED EQUIPMENT MAINTENANCE	618		37	33		1												
REPAIRS & REPRODUCTION	30		2	2														
PURCHASED SERVICES UNDER CONTRACT	2708		145	204														
STANDARD FUEL																		
SHIP FUEL																		
SUPPLIES	349		100	12		54												
EQUIPMENT	611		23	13														
OTHER EXPENSES																		
SERVICE TRANSPORT FUND																		
PURCHASED EQUIPMENT MAINTENANCE																		
SERVICE TRANSPORT FUND																		
OTHER FUEL	2																	
PRINTING AND REPRODUCTION																		
TOTAL OPERATING EXPENSES	14562		2728	1078	649	304												
LESS ANTICIPATED REIMBURSEMENTS																		
TOTAL DIRECT EXPENSES	14562		2728	1078	649	304												
TOTAL DIRECT EXPENSES																		27100
TOTAL DIRECT EXPENSES																		27100

NAVJUMPT CLAS FOR SECOND QUARTER

QUARTER	TOTAL DIRECT EXPENSE INCREASE (DECREASE) QUARTERLY AMOUNT	CHARGE IN UNDELIVERED ORDERS INCREASE (DECREASE) QUARTERLY AMOUNT	TOTAL DIRECT OPERATION BUDGET INCREASE (DECREASE) QUARTERLY AMOUNT	MILITARY PERSONNEL EXPENSES INCREASE (DECREASE) QUARTERLY AMOUNT	NEW OBLIGATIONAL AUTHORITY INCREASE (DECREASE) QUARTERLY AMOUNT
FIRST	0	0	0	0	0
SECOND	0	0	0	0	0
THIRD	0	0	0	0	0
FOURTH	0	0	0	0	0
TOTAL	0	0	0	0	0

DEPARTMENT OF THE NAVY
Chief of Naval Operations
Washington, D.C.

15 January 1986

From: Chief of Naval Operations
To: Superintendent, Naval Technical Training Center
Subj: FY-86 Mid Year Review

1. This letter provides guidance for the preparation and submission to FSA of unfunded requirements for which funding is required prior to the end of Fiscal 1986.
2. Criteria for submission of items for consideration in the mid year review process are as follows. Priority one (must fund) requirements are those that must be funded to maintain full mission capability. Requirements which must be accomplished to ensure personnel safety are also included in priority one. Priority two includes those items which contribute to mission accomplishment but are not absolutely necessary. Priority three includes requirements which will not in any way degrade mission accomplishment if not funded; but which will, if funded, contribute to more efficient operation in the future. Priority four includes all other requirements.
3. Because of the prevailing austere funding climate, it is necessary that every command reassess every current unfunded requirement and re-submit each requirement that is still valid, even though the requirement may have been submitted with previous updated spending plans.
4. Addressees are reminded that success during the mid year review depends upon the thoroughness of justification as well as the resources available for distribution. The amount of money available for distribution will not be exceeded, urgency of need and quality of justification notwithstanding. Therefore, commands are directed to continue operating in accordance with currently approved plans and to enter into no new commitments based on mid year review submission.
5. Each requirement is to be submitted separately on enclosure (1). In the justification section, identify the impact on operations if not funded, the possibility and impact of internal reprogramming and the SAG from which the funds could be obtained, and the impact if the item were deferred until first quarter, FY-87.

M. D. JENSON

ENCLOSURE (6)

MID-YEAR REVIEW FUNDING REQUEST

Date: .

From: Superintendent, Naval Technical Training School
Seattle, Washington.

Funding is requested for the following purpose:

Appropriation: FY: SAG: Priority:

Approved in original budget: Yes/No

Purpose:

Justification:

BUDGET EXECUTION EXERCISE

ASSIGNMENT 3

After the pay raise, the retirements, the utility rate increase, and hiring the guards in assignment 2; your annual spending plan showed \$27,678K which is \$578K more than your \$27,100K Annual Planning Figure. In addition, you had to take \$964K out of your initial spending plan. Considering that you were able to save \$200K in heating costs, you should have asked for \$1,342K at mid-year review unless you were able to identify other costs in the budget which you could cut.

Mid-year review gave you \$1,042K on 1 April. The Superintendent directed that all the cuts you took in the initial spending plan be restored (except for the \$200K the public works officer saved in heating costs), and you also had to fund all the requirements in assignment 2. In effect, on 1 April, you were \$300K short of the amount you need for the remainder of the fiscal year; and since the end of the fiscal year is not that far off, you are concerned about a potential Title 31 violation which would put both you and the Superintendent in jeopardy.

You spent considerable effort during the third quarter trying to justify further funding augmentation to FSA; but, as of 30 June, you had not been successful in obtaining any relief from FSA.

Your accounting supervisor has run several checks on the

accounting records and has confirmed that there are no invalid obligations which could be cancelled to provide funds. Although disappointed that no invalid obligations were found, at least you can take comfort in knowing that all your valid obligations have been reported and there are none waiting to surprise you at the end of the year.

Because you believed that you would be able to get funds in addition to the amount granted by the mid-year review, you continued to spend toward an annual figure of \$27,678K. It is now 1 July; and you are looking at finishing the fiscal year \$300K in the hole unless you do something and do it soon! The following paragraphs contain ideas that you might wish to employ in order to reduce expenditures.

Although personnel resignations occur at an average rate of 30 per month and it takes a month to fill a job, the civilian personnel director has consistently maintained staffing at the authorized 746 ceiling by recruiting to a target higher than 746. The civilian personnel director is concerned that any billets that remain unfilled on 30 September may be cut from next year's budget by FSA.

NTTS recently agreed to accept work from another Navy activity in the area. Under the terms of the new Intra-service support agreement NTTS will be reimbursed for labor used to calibrate test equipment. The agreement, which became effective 1 April 1961, calls for a level of effort of approximately ten man years per year. Thus per-

the workload has followed the expected pattern. The work is done at the GS-6 level. The calibration laboratory supervisor has advised you that he has a backlog of one man year that he could work down before the end of the fiscal year if it will help the NTTS financial situation.

The following actions are planned for the remainder of the fiscal year:

1. The Director of Science and Engineering is presently working on plans to have the supply officer procure 100K in test equipment for the physics labs. The money for this procurement is in the spending plan. Because the most expensive item on the list costs \$873.00, the supply officer knows that he is faced with a large volume of purchase orders to execute; and he's anxious to get going on it.
2. A contract for maintenance of the main frame computer is due to expire on 31 August and must be renewed for a twelve month period for a total cost of \$240K. Total contract cost is based on a flat rate and is not subject to change, regardless of the volume of maintenance required. Money is included in this year's spending plan for this purpose.
3. The school's telephone system has reached its capacity. A program to upgrade the telephone system was approved by the Superintendent and funds were put in this year's budget. Work was originally planned to

start in February of this year, however administrative delays were experienced in the contract negotiations. The contract is to be signed on 1 September and work is to begin at the same time. The work is scheduled to take 6 months to complete and the total contractual cost will be \$150K. COMNAVTELCOM authorized the upgrade but requires that the contract be signed before the end of the current fiscal year.

4. The school has funds to procure a new lathe for the public works department at a cost of 25K.
5. The Superintendent is considering the possibility of continuing the student aid program into the fall and winter months. The program provides work opportunity for low income high school students. The program costs \$10K per month but could be terminated as early as 1 August if necessary. Since only \$20K in overtime costs have been incurred this fiscal year, the Superintendent established the student aid program on 1 June and charged the costs to the overtime account.
6. The Superintendent wants a new Xerox machine. The old machine is owned by the school and has no salvage value. The new machine is to be rented on 1 August at an annual cost of \$12K, not including cost for supplies and paper which cost about \$200.00 per month. Money for the new machine is in the spending plan.

In addition to looking at items 1-6 (above) as possible

sources of funds, you also decide to look at your memorandum optar records to see "who's doing what with their money." A portion of the 30 June Operations and Maintenance, Navy funds status report is as follows:

OPTAR HOLDER	Actual (Cumulative)	Annual Target	Percent of Target	Percent of Time
Public Works	5065K	6578K	77	75
Academic	11850K	14813K	80	75
Admin	1758K	2790K	63	75
Supply	4218K	5938	71	75
TOTAL	22891K	30119	76	75

All the department heads have provided you with plausible explanations for the deviation from the straight line obligation rate, and say that they cannot accept a cut in their annual target. You may assume that departments not listed above are obligating funds at the straight line rate and finished the third quarter with 75% obligated.

REQUIREMENT: Prepare a memorandum for the Superintendent which lists your recommendations for courses of action so that you will not end the fiscal year in an over-obligated status. Recommendations start with the least severe and end with the most severe course of action. Your recommendations should address all six options listed above and any others that seem practical from the information presented in the assignment and your knowledge of the NTTS

scenario used in the first two assignments. Your recommendations should state the impact of the action and how much money it will save. (If you propose personnel cuts, you may assume that the average civilian employee is paid \$19,332.00 per year including appropriate acceleration.) No special format is prescribed.

Your input is due not later than _____.
Leave your input in the box outside LCDR Duke's office,
Ingersol 215.

LIST OF REFERENCES

1. Department of the Navy, Financial Management Guidebook for Commanding Officers, NAVSO P-3582, Naval Publications and Forms Center, Philadelphia, PA 1982.
2. Department of the Navy, Financial Management in the Navy, NAVEDTRA 10792-E, Government Printing Office, Washington, DC, 1981.
3. Executive Office of the President, Office of Management and Budget, Instructions on Budget Execution, OMB Circular No. A-34, 1976.
4. Eidson, A. J., A Practical Budget Exercise for Financial Management Students at the Naval Postgraduate School, Master's Thesis, Naval Postgraduate School, Monterey, California, December 1984.
5. Department of the Navy, Navy Comptroller Manual, NAVSO P-1000, Government Printing Office, 1974.
6. Edward P. Harkins, "Organizing and Managing the Corporate Financial Function," Business Policy Study No. 129 (New York: National Industrial Conference Board, 1969), p. 19, cited by Vijay Sathe, Controller Involvement in Management, (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1982), pp. 7-8.
7. Vijay Sathe, Controller Involvement in Management, (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1982).

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